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No. 07-

IN THE
Supreme Court of the United States

WESTBOUND RECORDS, INC.,

Petitioner,

v.

JUSTIN COMBS PUBLISHING and BAD BOY ENTERTAINMENT, individually and doing business as Bad Boy Records; UNIVERSAL RECORDS, a division of UMG Recordings, Inc.; UMG RECORDINGS, INC.; BAD BOY LLC,

Respondents.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEAL FOR THE SIXTH CIRCUIT

PETITION FOR WRIT OF CERTIORARI

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QUESTIONS PRESENTED

This punitive damages case presents questions relating to (i) the implementation of the due process "guideposts" of *BMW of North America, Inc. v. Gore*, 517 U.S. 559 (1995), and *State Farm Mutual Automobile Insurance Company v. Campbell*, 538 U.S. 408 (2003), and (ii) the dividing line between "*de novo*" and "clear error" review under *Cooper Industries, Inc. v. Leatherman Tool Group, Inc.*, 532 U.S. 424 (2001).

1. Whether only punitive damages awards that are "grossly excessive" outliers – that "run wild," *Pacific Mutual Life Insurance Co. v.* Haslip, 499 U.S. 1, 17 (1991) – are barred by substantive due process and, if so, whether this Court should embrace as binding doctrine a presumption of validity for jury awards of less than a 10:1 compensatory-to-punitive-damages ratio, absent a finding of either (i) the lack of malice or (ii) the presence of bias, passion or prejudice, as suggested by the plurality opinion in *TXO Production Corp. v.Alliance Resources Corp.*, 509 U.S. 443, 457 (1993) and by Justice Breyer's concurrence in *BMW of North America, Inc. v. Gore*, 517 U.S. 559, 586-87 (1996)?

2. Whether, by analogy to *United States v. Bajakajian*, 525 U.S. 321 (1998), upon which this Court relied in adopting the *de novo*

review standard for punitive damage awards, the Court should embrace a "gross" proportionality rather than a "strict" proportionality requirement for evaluating jury awards of punitive damages and for clarifying and shaping the role of appellate courts in applying the *de novo* review standard adopted in *Cooper Industries, Inc. v. Leatherman Tool Group, Inc.*, 532 U.S. 424 (2001)?

3. Whether jury findings on such components of "reprehensibility" as malice, financial vulnerability, and repeated misconduct are factual determinations subject to "clear error" review or legal conclusions subject to *de novo* review under *Cooper Industries*, *supra*?

PARTIES TO THE PROCEEDINGS BELOW

The parties to the proceeding are listed in the caption.

RULE 29.6 STATEMENT

Petitioner Westbound Records, Inc., states that it has no parent company and no subsidiaries.

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PETITION FOR A WRIT OF CERTIORARI

Petitioner Westbound Records, Inc. ("Westbound") respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Sixth Circuit in this case.

OPINIONS BELOW

The Sixth Circuit's opinion (Pet. App. 1a-45a) is published at 507 F.3d 470 (6th Cir. 2007). The Sixth Circuit's order denying rehearing en banc (Pet. App. 46a-47a) may be found at 2008 U.S. App. LEXIS 3773. The District Court's order denying defendants' motion for mistrial or modification of verdict is not reported but may be found at Pet. App. 48a-56a. The District Court's order on jury verdict is not reported but may be found at Pet. App. 57a-58a.

JURISDICTION

The Court of Appeals denied a timely petition for rehearing and rehearing *en banc* on February 19, 2008. This Court has jurisdiction pursuant to 28 U.S.C. § 1254(1).

RELEVANT CONSTITUTIONAL PROVISIONS

The Fourteenth Amendment provides in relevant part: "nor shall any State deprive any person of life, liberty, or property, without due

process of law; nor deny to any person within its jurisdiction the equal protection of the laws."

STATEMENT OF THE CASE

The Sixth Circuit set aside a jury determination of punitive damages contrary to the principles established by this Court. The jury awarded a total compensatory judgment of $733,878, to Westbound Records ("Westbound"), which the lower court then reduced by half (to $366,939), due solely to the presence of another plaintiff in the action. Additionally, Westbound was awarded $3.5 million in punitive damages. The ratio between the total compensatory award and the punitive damages was at most 9.5:1, notably within single digits. Further, (a) the Sixth Circuit found that Defendants' conduct was the result of malice or deceit, 507 F.3d at 486; and (b) the Sixth Circuit expressly rejected a claim of jury passion or prejudice, affirming a District Court finding. *Id.* at 478-80. Yet, the Sixth Circuit did not afford the punitive damages award a presumption of validity, but held that due process allows a maximum compensatory/punitive ratio of 2:1.

The Sixth Circuit also did not accord the deference due to a jury's findings of fact. Rather than defer to the jury's findings on financial vulnerability and repeated conduct under clear error, it made its own factual findings after reviewing the factual record *de novo*. The Sixth Circuit improperly second-guessed the factual findings of the jury in violation

of the admonition in *Cooper Industries, Inc. v. Leatherman Tool Group, Inc.*, 532 U.S. 424, 435-36 (2001), that review of factual findings must be for clear error.

The Sixth Circuit decision has wide-ranging implications for appellate review of punitive damages awards. While this Court's attempts at providing objective guideposts and harmonizing this difficult area of jurisprudence have been commendable, its efforts have had an unfortunate byproduct -- a disturbing trend towards micro-management of jury verdicts by appellate courts. Rather than address this Court's concern of protecting defendants against "grossly excessive" verdicts, and of establishing objective criteria for appellate review of punitive damages, the Sixth Circuit decision highlights a routinization of appellate review.

First, this area of jurisprudence requires some clarification. To that end, this Court should establish as definitive doctrine a presumption of validity for jury awards of punitive damages within single digit ratios, (i) absent a finding of passion or prejudice on the part of the jury or (ii) absent a finding of lack-of-malice on the part of the tortfeasor. This presumption of validity derives from the plurality opinion in *TXO Production Corp. v. Alliance Resources Corp.*, 509 U.S. 443, 468-69 (1993) (per Stevens, J.) and the concurring opinion of Justice Breyer in *BMW v. Gore* , 517 U.S. 559, 587 (1996).

The Court should use this case as a vehicle to establish that presumption as formal doctrine.

Second, many courts, including the Sixth Circuit in this case, mistakenly apply a simple "proportionality" standard when reviewing a jury award of punitive damages. This Court needs to clarify that the correct standard is "excessively" or "grossly" disproportional. Appellate courts should not disturb jury awards unless they are grossly excessive. *See United States v. Bajakajian*, 525 U.S. 321 (1998). Otherwise the trend of appellate micromanagement of jury verdicts will continue.

Third, this Court also needs to reinforce what it stated in *Cooper Industries*, 532 U.S. at 435-36. A jury's factual determinations regarding components of reprehensibility such as financial vulnerability and repeated conduct may not be set aside by an appellate court unless there was clear error.

The concerns that led to the development of modern substantive due process jurisprudence have been abandoned by the Sixth Circuit and other federal appeals courts reviewing punitive damages awards. In *Pacific Mutual Life Ins. Co. v. Haslip*, 499 U.S. 1, 17 (1991), this Court recognized a "concern about punitive damages that '**run wild**.'" *Id.* (emphasis supplied). Rather than protecting defendants against the rare instance of "grossly excessive" punitive damages as articulated in *BMW v. Gore*, *supra*, appeals courts have micromanaged

jury verdicts of punitive damages under more intrusive and subjective standards.

Federal appeals courts have used the "guideposts" developed in *Gore* (and further explicated in *State Farm Mut. Automobile Ins. Co. v. Campbell,* 538 U.S. 408 (2003)) non-uniformly and in a manner that is inconsistent with the Court's core concern of dealing with outlier cases. Instead of policing against "grossly excessive" outlier punitive damages, the appeals courts have become bogged down in determining, as the Sixth Circuit did in this case, whether a single-digit ratio of punitive to compensatory damages should be invalidated in favor of a marginally lower single-digit ratio.

This trend toward appellate micro-management of punitive damages awarded by juries and affirmed by district courts has been unwittingly facilitated by the rule that appellate review of district court determinations of punitive damages is *de novo.* Despite this Court's holding in *Cooper Industries* requiring deference to jury findings of fact on punitive damages, under a clearly erroneous standard, 532 U.S. at 435-36, appellate courts (such as the Sixth Circuit in this case) have not deferred to jury factfinding but have rather conducted a comprehensive review as if they were a jury.

The Sixth Circuit judgment warrants review because it raises important questions of law regarding the meaning of this Court's punitive damages jurisprudence. It also deepens a circuit

split under the reprehensibility guidepost on the issue of whether a jury can find "repeated conduct" from multiple actions committed by the defendant against the same plaintiff.

1. Background.

As discussed more fully below, this Petition concerns the jury award of punitive damages to Westbound upheld by the United States District Court for the Middle District of Tennessee in a case involving common law copyright infringement and other New York state law claims. The jury awarded Westbound punitive damages that were at most 9.5 times the amount of compensatory damages.[1] Pet. App. 31a. On appeal the Sixth Circuit found the punitive damages award unconstitutional and remanded with instructions to limit the punitive damages to a ratio of 1:1 or 2:1. Pet. App. 35a. By so doing, the Sixth Circuit replaced one single digit ratio of punitive damages with another single digit ratio, while expressly rejecting a claim of jury passion or prejudice and upholding a finding of tortfeasor malice.

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[1] In arriving at the 9.5:1 ratio, the Sixth Circuit used Westbound's share, which the District Court had reduced to half of the jury's total compensatory damage award. That figure was $366,939. Westbound contends that the proper calculation of the ratio of punitive to compensatory damages should be based on the total compensatory award ($733,878), not just the Westbound portion. Such a calculation yields a ratio of 3.5:1. Pet. App. 34a.

As relevant, this controversy arises from the unauthorized use of Westbound's sound recording, and its sister company Bridgeport Music's copyrighted musical composition, "Singing in the Morning" in Defendants' musical composition and sound recording "Ready to Die," which was released on the album Ready to Die.

Under copyright law, the holder of a sound recording, like Westbound, must consent to the use of its material when another party seeks to copy ("sample") the work in a later created song. *Bridgeport Music, Inc. v. Dimension Films*, 410 F.3d 792 (6th Cir. 2005). That is, the form of protection afforded the owner of a sound recording or musical composition is what has been categorized as a "property" rule, which allows the owner to refuse use of its material.[2]

In this case, Defendants well understood that they could not use Bridgeport and Westbound's material without approval. Defendants sought unsuccessfully to use a sample of a song owned by the national figure Jimi Hendrix; when they could not "clear" the Hendrix "sample", Defendants took "no" for an answer –aware of the law and the legal consequences.

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[2] Guido Calabresi & A. Douglas Melamed, *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*, 85 HARV. L. REV. 1089, 1105 (1972). This type of legal protection differs from a "liability" rule, in which the law provides damages to a party whose legally protected rights have been abrogated.

Faced with the Hendrix rejection and the perceived need for an alternative, Defendants knowingly and maliciously used Westbound and Bridgeport's material as a substitute without notice or permission – and sought to stonewall, to deny, and then cover up the intentional, malicious breach until Defendants were found liable at trial 12 years after the release of Ready to Die.

Defendants **perceived** Plaintiff to be vulnerable – not likely to detect the breach or, if found out, to have the power or the resources to enforce its claims. Defendants gambled either Plaintiff would never find out, or if it did, Defendants would deny Plaintiff's works were sampled. When Plaintiff discovered the infringement, Defendants ignored all of Plaintiff's calls and letters, forcing litigation. Thereafter, in the course of litigation, the infringers denied there was a sample, mocked Plaintiff and refused to remedy the infringement. Sean Combs (professionally known as "Puff Daddy" or "Diddy"), a world famous record producer, testified unbelievably that he was not qualified to say whether two songs sound alike, while denying the infringement. Perhaps even more audaciously - and, on its own warranting punitive damages - Defendants breached Plaintiff's copyright yet again while these proceedings were still pending by re-releasing the material on another recording. And, to rub salt in the wound, Defendants pugnaciously challenged Plaintiff to stop them.

After persistent denials during pre-trial proceedings, the infringers at trial, admitted to the jury "[they] knew all along" about the unauthorized sample (despite eight years of denial, including multiple denials in answers to written discovery and in the deposition testimony of Sean Combs himself). Defendants contended at trial that the only question was "how much?" That is, defendants knowingly and willfully transformed the protection of Plaintiff's copyright from a "property" rule to a "liability" rule, see note 2, *supra*, forestalling Plaintiff's ability to deny Defendants the use of its copyrighted materials. Having dissembled about what had transpired, Defendants audaciously asserted the only question was "liability" rule damages – as if the loss of Plaintiff's "property" rule right to deny use was legally irrelevant and to be ignored with impunity. This conduct is a classic case for punitive damages.

The jury found Defendants liable on all counts and awarded compensatory damages of $733,878 for both Plaintiffs. Westbound's claims under New York common law entitled it to half the award ($366,939). The jury found Defendants' infringement willful, awarding Bridgeport (the other Plaintiff and music publisher) reduced statutory damages of $150,000, which it later elected.[3]

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[3]Bridgeport elected to take the reduced statutory award for reasons unrelated to any issues raised herein.

Based on the Defendants' conduct – *e.g.*, disregarding Plaintiff's legal right to deny Defendants' use of its materials – the jury found Defendants liable to Westbound for punitive damages. The jury awarded punitive damages against Bad Boy Entertainment for $1.5 million, Bad Boy LLC for $1 million, and UMG Recordings for $1 million.

2. The Court of Appeals' Decision.

The Sixth Circuit rejected the Defendants' claim that the jury verdict was the result of passion or prejudice. 507 F.3d at 478-80. It affirmed that "the harm was the result of [Defendants'] intentional malice or deceit." *Id.* at 486.

The Sixth Circuit conducted a *de novo* review and held that Westbound's $3.5 million punitive damages award was unconstitutionally excessive. The Court considered the *Gore* and *State Farm* "guideposts" for evaluating the constitutionality of a punitive damages award, namely: (1) the reprehensibility of defendants' conduct, (2) the disparity between plaintiff's compensatory and punitive award, and (3) a comparison of the award and civil penalties in comparable cases.

Reprehensibility. Without giving deference to the jury's findings of fact, the Court concluded that only one of the *State Farm* reprehensibility factors was present, *i.e.*, "the harm was the result of intentional malice or deceit." *Id.* At trial Westbound

presented evidence from which the jury was entitled to make the further factual findings that Westbound was a financially vulnerable target and that Defendants' conduct involved repeated actions. However, the Sixth Circuit rejected these two fact-based reprehensibility criteria under *de novo* review. The Court disagreed with the jury on the financial vulnerability of the Plaintiff on factual grounds – without deferring to the jury's finding of fact to the contrary. It further refused to accept that defendants' repeated and audacious violations against Plaintiff constituted repeated conduct. Giving little weight to what the jury might have found regarding financial vulnerability and repeated conduct, the Sixth Circuit made its own factual findings on these issues and found that these factors were absent. Even though the Sixth Circuit preserved the jury finding of willfulness, it diluted the jury's factual finding by characterizing it as "not a strong showing of intentional malice or deceit." *Id.* at 487.

Intentional malice and deceit. The harm to Westbound was the result of intentional malice. The jury so found, the District Judge who heard all evidence concurred, and the Panel affirmed. Pet. App. 27a.

Defendants knew full well of the need to secure approvals for use of "samples." They deliberately used Westbound's sound recording work without notice to Westbound or its approval, hoping Westbound would not discover the breach. In

approving the release of the album at issue, defendants, without authorization, improperly used other samples of other music in other songs on the album. Defendants hid the breach from Westbound from the 1994 release of the infringing album until Plaintiff discovered it in 1998. When the breach was discovered by Westbound, Defendants denied the breach and confrontationally challenged Westbound to prove their claim (even though Defendants knew Westbound's rights had been violated).

Further, Defendants stonewalled Westbound when it sought to hold Defendants accountable, and, provocatively, even mocked Westbound's efforts.

In the litigation itself, Defendants covered up their conduct, repeatedly denying (in response to both interrogatories and requests to admit, as well as in deposition testimony) that the music was taken; yet Defendants confessed in opening statement that they "knew all along" about the unauthorized theft, despite eight years of denial.

In the ultimate contempt for Westbound's rights, Defendants **again** high-handedly released the infringing work multiple times during the lead-up to the trial on infringement, without following their own procedures and without removing the stolen music. This is precisely the kind of in-your-face gall – reprehensible behavior – that warrants punitive damages.

On review, the Sixth Circuit denigrated the degree of reprehensibility of this conduct. Pet. App. 27a-28a. It did not address the standard of its review of this jury fact-finding. In fact, it accorded the jury's determination very little deference. The jury's decision can hardly be declared "clear error," yet the Court gave the jury's finding short shrift, thereby undermining the jury's role in the fact-finding process.

Financial vulnerability. The Sixth Circuit misperceived the nature of the "financial vulnerability" inquiry – a sub-factor of the reprehensibility analysis. The Court observed that Westbound had successfully defended its copyrights in litigation and was therefore not financially vulnerable. 507 F.3d at 487. But that misperceives the purpose (and therefore the nature) of the "financial vulnerability" analysis.

The point here is to determine how reprehensible Defendants' conduct is. That cannot be determined after the fact ("ex post") by a showing that Westbound – David – was indeed able to defend itself (unexpectedly). Rather, the point of reference must be Defendants' perception of Westbound's financial vulnerability when Defendants – Goliath – acted initially (an "ex ante" perspective). In this case, the jury could reasonably conclude – as it did – that Defendants' course of conduct disrespected Westbound's rights because of Defendants' perception that they were Goliath and Plaintiff was David – whereas Jimi Hendrix was a co-equal

Goliath. That Westbound turned out to be a tenacious foe – as did David – is beside the point. The jury could reasonably find reprehensibility under the financial vulnerability factor based on Defendants' behavior their perception of Westbound's ability to detect the violations and protect its rights, and the other evidence offered by Westbound concerning their size and vulnerability. The Sixth Circuit's independent weighing of this factor undervalued the jury's role and misstated the Court's own appellate role in evaluating the jury's finding for clear error.

Further, the Sixth Circuit reasoned that Defendants' refusal to use the Jimi Hendrix sample "cuts both ways-- it could mean that defendants actually tried to avoid copyright infringement, or it could mean... that defendants only avoided infringing copyrights owned by the powerful." Pet. App. 28a. This is a blatant disregard of the jury's factual finding that this evidence cut in favor of Westbound. It is fundamentally inconsistent with *Cooper Industries,* 532 U.S. at 435-36. Under *Cooper Industries* an appellate court cannot set aside such a jury finding unless clearly erroneous. The Sixth Circuit set aside the jury's findings on punitive damages in favor of Westbound without addressing its standard of review, but clearly applying the erroneous *de novo* standard.

Repeated misconduct. Finally, Defendants' conduct was not an "isolated incident" but "repeated." "Repeated misconduct is probative of

reprehensibility when the tortfeasor knows or suspects that his pattern of behavior is unlawful." *CGB Occupational Therapy, Inc. v. RHA Health Servs.*, 499 F.3d 184, 191 (3d Cir. 2007). The repeated conduct started with the intentional misappropriation of Westbound's material and extended over the course of twelve years – leading up to the trial. Whether this type of misappropriation, denial, stonewalling, cover-up, and dissembling – a long-term pattern of intentional and malicious behavior – warrants characterization as "repeated" was within the jury's role to decide. The Court of Appeals ruled otherwise, holding as a matter of law that "[t]he repeated conduct factor" requires that the "similar reprehensible conduct be committed against various different parties." 507 F.3d at 487 (internal cite omitted).

In sum, the Sixth Circuit neglected this Court's emphasis on "gross excessiveness" in its decision. In fact, it did not refer to that or a comparable term even once.

REASONS FOR GRANTING THE WRIT

I. THE SIXTH CIRCUIT'S JUDGMENT CONFLICTS WITH MODERN DUE PROCESS JURISPRUDENCE.

In *Pacific Mutual*, 499 U.S. at 17, this Court held that the "common-law method for assessing punitive damages does not in itself violate due process." At the same time, the Court noted that that "was not the end of the matter." *Id.* at 18. Punitive damage awards were subject to due process scrutiny of procedure and outcome on grounds of reasonableness and fairness. The punitive damage awards that caused concern in *Pacific Mutual* – and led to the modern substantive due process jurisprudence of punitive damage award review -- recognized the Court's "concern about punitive damages that '**run wild**.'" *Id.* (emphasis supplied).

From the outset, the Court emphasized that the goal was to achieve a rough and reasonable accommodation between a defendant's "interest in rational decisionmaking" and the state's "interest in meaningful individualized assessment of appropriate deterrence and retribution," *id.* at 20, thereby "ensur[ing] that punitive damages awards are not **grossly** out of proportion to the severity of the offense and have some understandable relationship to compensatory damages." *Id.* at 22 (emphasis supplied). It was early understood that the very nature of the common-law process of adjudication would lead to inconsistency in jury results, and that

such "nonuniformity cannot be equated with constitutional infirmity." *Id.* at 41 (Kennedy, J., concurring in result). Providing some constraint on jury discretion, guarding against jury bias or prejudice, *id.*, and assuring "some understandable relationship" between punitive and compensatory damages were the guiding objectives that drove this Court's entry into this arena, over the cautionary objections of members of the Court who expressed skepticism about that entry. *Id.* at 24 (Scalia, J., concurring in judgment); *TXO*, 509 U.S. at 470 (Scalia, J., concurring in judgment).

The plurality opinion in *TXO* made "explicit what was implicit in *Haslip*: the existence of a so-called 'substantive due process' right that punitive damages be reasonable." *Id.* (Scalia, J., concurring in judgment). *TXO* confirmed that the Court's concern was with "grossly excessive" punitive damages awards that were such outliers ("so 'grossly excessive'") as "to violate ... substantive... Due Process." The Court's role under the emerging doctrine was to ensure "reasonableness." *Id.* at 458.

TXO did not command a Court; concurring in the judgment, Justice Kennedy emphasized that the "fundamental guarantee" is not "with dollar amounts" or "ratios," but an assurance "that the individual citizen may rest secure against arbitrary or irrational deprivations of property," which can occur when a punitive damages award "reflects bias, passion, or prejudice on the part of the jury, rather than a rational concern for deterrence or

retribution." *Id.* at 467. The size of an award is "one indication that it resulted from bias, passion or prejudice," other considerations can also serve as evidence of the lack of rationality and fairness. *Id.* In the face of evidence of TXO's "malice," Justice Kennedy agreed with the plurality that the existence of "deliberate, wrongful conduct" rationally justified a $10 million punitive award in a case involving $19,000 in actual damages. The jury's award could have rationally been "motivated by a legitimate concern for punishing and deterring TXO, rather than by bias, passion, or prejudice." *Id.* at 469.

The theme of a "concern about punitive damages awards 'run wild'" and the link to concerns about "caprice or passion" are also reflected in Justice O'Connor's dissent in *TXO*. *Id.* at 475. Justice O'Connor was an early proponent of substantive due process review of punitive damages awards; she would have invalidated the award in *TXO* that the Court approved. It was she who complained that the plurality in *TXO* had not set forth "a single guidepost to help other courts find their way through this area." *Id.* at 480. Justice O'Connor proposed a threshold approach: courts should engage in "searching review where the verdict discloses such great disproportions as to suggest the possibility of bias, caprice, or passion." *Id.* at 481.[4]

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[4] This approach is much like that embraced by Justice Breyer in his concurrence in *BMW v. Gore*, 517 U.S. at 586-87. Following the plurality approach in *TXO*, 509 U.S. at 457,

In *BMW v. Gore*, 517 U.S. 559 (1996), the Court for the first time struck down a punitive damages award under substantive due process. *Gore* reconfirmed the "grossly excessive" standard: "Only when an award can fairly be categorized as 'grossly excessive' in relation to" a state's interests in "punishing unlawful conduct and deterring its repetition... does it enter the zone of arbitrariness that violates ... Due Process." *Id.* at 568. *Gore* adopted the three now-conventional guideposts that facilitated and structured analysis: reprehensibility, proportionality, and relationship to other analogous penalties. *Id.* at 574-75. These guideposts responded to the concerns that judicial review of jury awards of punitive damages could be too subjective. It is clear that *Gore* was decided not on the basis that the $2 million punitive award was "simply excessive," but on the basis that it was "grossly so, and therefore unconstitutional." *Id.* at 611 (Ginsburg, J., dissenting); *id.* at 586 (Breyer, J., concurring)(The punitive damages award was "'grossly excessive' in relation to legitimate punitive damages objectives").

In post-*Gore* cases, the Court has concentrated on providing more objective criteria to

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Justice Breyer (joined by Justices O'Connor and Souter) contended that if punitive damages procedures are fundamentally fair, there is a "presumption of validity" of a punitive damages award that must be "overcome." In *Gore*, Justice Breyer concluded that the presumption of validity was overcome because, in part, the award was "grossly excessive in light of the State's legitimate punitive damages objectives."

guide review of punitive damages awards – for example, limiting consideration of conduct outside a state for punishment by a state, *see State Farm*, 538 U.S. at 421; and limiting consideration of harm caused to non-parties, *see Philip Morris USA v. Williams*, 127 S. Ct. 1057, 1065 (2007). It has also held that appellate courts review district courts' determinations of the constitutionality of punitive damages awards on the basis of *de novo* review. Factual findings in the District Court, however, "must be accepted unless clearly erroneous." *Cooper Industries,* 532 U.S. at 435-36 (internal cite omitted). At the same time, the Court has resisted taking cases that deal with the question "whether the award here at issue is 'grossly excessive.'" *Phillip Morris,* 127 S. Ct. at 1063. *See also Exxon Shipping Co. v. Baker*, 07-219 (expressly denying certiorari on issue whether the size of the punitive damages award violated substantive due process).

The substantive due process review of punitive damages awards addresses both "procedures for awarding punitive damages and ... amounts forbidden as 'grossly excessive.'" *Philip Morris*, 127 S. Ct. at 1062. With respect to review of the amount of a punitive award, the Court has "insist[ed] upon proper standards that will cabin the jury's discretionary authority" in order to provide a defendant with "fair notice ... of the severity of the penalty that a State may impose." *Id.* (internal cite omitted). Articulation of guideposts in *Gore* (and further explicated in *State Farm*) adds objectivity, promoting "fair notice" and structuring jury

discretion. Such objective criteria facilitate appellate review, which is designed to "ensure[] that an award of punitive damages is based upon an 'application of law, rather than a decision maker's caprice.'" *State Farm*, 538 U.S. at 418 (internal cites omitted).

A. The Sixth Circuit And Others Are Not Policing Against "Grossly Excessive" Outlier Punitive Damages.

An unforeseen consequence of the development of "guideposts" and their elaboration – importantly, in the name of the rule of law on appellate review – has been a certain routinization of the process of appellate review (as in the instant case). As this case and other cases from the Sixth Circuit and other circuits attest, the routinized appellate review process has led federal appellate courts dangerously close to performing a role that might be proper "[w]ere [they] sitting as state-court judges," reviewing the "size and recurring unpredictability of punitive damages awards," *Pacific Mutual*, 499 U.S. at 42 (Kennedy, J., concurring in judgment), but which strays from the Court's core concern of dealing with outlier cases – "punitive damages that 'run wild.'" *Id.* at 18. That is, the Court's important and commendable strategy of developing guidelines to substitute the rule of law for decision-making by whim and caprice with respect to punitive damages has had an unfortunate byproduct. Federal appellate courts have not kept

their eye on the ball -- policing against "grossly excessive" outlier punitive damages awards. Instead, they have become bogged down in determining (as in this case) whether a single-digit ratio of punitive to compensatory damages should be substituted for a marginally lower single-digit ratio. Thus, the Court of Appeals in this case, as in others, does not even use the term "grossly" excessive, only excessive.

A review of some recent punitive damages cases from the Sixth Circuit, other federal appeals courts, and several state courts, demonstrates a deviation by some appellate courts from this Court's concern with dealing with outlier cases. Rather than serve to protect against "grossly excessive" awards of punitive damages, the *Gore* guideposts have facilitated the routinazation of aggressive appellate review. Some courts (such as the Sixth Circuit herein) have missed the forest for the trees in this important area of jurisprudence – and completely ignored this Court's emphasis on outlier punitive damages. Others have adhered more faithfully to the objectives set out by this Court's evolving jurisprudence.

In one approach, appellate courts (as in this case) have aggressively reduced single-digit punitive award ratios to a marginally smaller single-digit ratio: *See, e.g., Clark v. Chrysler Corp.*, 436 F. 3d 594 (6th Cir. 2006)(punitive damages in product liability case reduced from 6.3 times the compensatory damages award to 2 times

compensatory); *Eden Elec. Ltd. v. Amana Co.*, 370 F.3d 824 (8th Cir. 2004)(punitive damages in fraud case reduced from 8.5 times compensatory to 4.5 times compensatory); *Conseco v. Finance Servicing Corp.*, 381 F.3d 811 (8th Cir. 2004)(punitive damages in unfair competition case reduced from 5.5 times compensatory to 2 times compensatory); *Diesel Machinery, Inc., v. B. R. Lee Industries*, 418 F.3d 820 (8th Cir. 2005)(punitive damages in dealership termination case reduced from 6.5 times compensatory to 4 times compensatory); *Harris v. Archer*, 134 S.W.3d 411 (Tex. App. 2004)(punitive damages in breach of fiduciary duty case reduced from 7.3 times compensatory to 4 times compensatory); *Tony Gulo Motors v. Chapa*, 2006 WL 3751591 (Tex. 2006)(punitive damages in fraud case reduced from 8.6 times compensatory to 4.3 times compensatory).

At the same time, other appellate courts, more in line with the approach advocated by Petitioner, have appeared to treat single-digit ratios as presumptively valid: *See, e.g., Zhang v. American Gem Seafoods, Inc.*, 339 F.3d 1020 (9th Cir. 2003) (7:1); *Planned Parenthood v. Am. Coal. of Life Activists*, 422 F.3d 949 (9th Cir. 2005) (9:1); *Rhone-Poulenc Agro, S.A. v. DeKalb Genetics Corp.*, 345 F.3d 1366 (Fed. Cir. 2003) (3.3:1); *Trinity Evangelical Lutheran Church v. Tower Ins. Co.*, 661 N.W.2d 789 (Wis. 2003) (7:1); *Marie Deonier & Associates v. Paul Revere Life Insurance Co.*, 101 P. 3d 742 (Mont. 2004) (6.6:1); *Union Pacific R.R. Co. v. Barber*, 149 S.W.3d 325 (Ark. 2004) (5.1:1); *Collins*

Entm't Corp. v. Coats & Coats Co., 584 S.E.2d 120 (S.C. App. 2003) (9.9:1).

B. The Sixth Circuit's Decision Reinforces Non-Uniform And Inconsistent Application Of The *Gore* (And *State Farm)* Guideposts.

Federal appeals courts have used the "guideposts" developed in *Gore* (and further explicated in *State Farm*) non-uniformly and, for many such as the Sixth Circuit, in a manner that is inconsistent with the Court's core concern of dealing with outlier cases. Instead of policing against "grossly excessive" outlier punitive damages, those appeals courts have become bogged down in determining, as the Sixth Circuit did in this case, whether a single-digit ratio of punitive to compensatory damages should be substituted for a marginally lower single-digit ratio.

As a consequence, we have the untoward result of a split in circuits regarding the constitutionality of marginally different ratios of punitive to compensatory damage awards. Rather than assist in protecting against "grossly excessive" punitive damages, the Sixth Circuit's approach is an instance of getting bogged down in trivia and routinization of appellate review.

C. The Sixth Circuit Decision Encourages Appellate Micromanagement Of Punitive Damages Awarded By Juries Contrary To This Court's Decision In *Cooper Industries*.

Appellate micromanagement of the punitive damages awarded by juries and affirmed by district courts is facilitated by the rule that appellate review of district court determinations regarding punitive awards is *de novo*. Even though this Court in *Cooper Industries* held that deference on factfinding was appropriate under a clear-error standard, some appellate courts (such as the Sixth Circuit in this case) have not deferred on factfinding but have comprehensively reviewed the record as if they were the jury, acting *de novo*. For example, the Court of Appeals in this case recognized that the jury found defendants' conduct to be willful but, while accepting that judgment, the Court of Appeals devalued it by labeling plaintiff's case as "not a strong showing of intentional malice or deceit." 507 F.3d at 486. Such devaluation of a jury's finding of fact is not the proper role of appellate courts.

In reviewing a jury's award of punitive damages under *State Farm*, the Oregon Court of Appeals rightly noted that a jury's verdict in favor of a party requires that an appellate court resolve all disputed facts in favor of that party. The Oregon Court said:

> "[D]efendant fails to recognize that the jury decided the case in plaintiff's favor and

> that, as a result, we must resolve all disputed facts in favor of plaintiff.... Rather, it states the facts as it wishes the jury had found them, downplays the seriousness of plaintiff's injuries, and reargues a number of issues concerning the dangerousness of its product that the jury decided against it. We ignore those aspects of defendant's arguments." *Waddill v. Anchor Hocking, Inc.*, 190 Ore. App. 172, 178 (Or. Ct. App. 2003).

The court in W*addill* pointed out that *Cooper Industries* did not permit an appeals court to engage in its own evaluation of the factual evidence (except under the clear error standard). *Id.* at 176. The *Waddill court* rightly said: "[*D*]*e novo* review is review for errors of law of the trial court's evaluation of the jury's award for excessiveness; it is **not** *de novo* review of the facts that the jury found that give rise to an award of punitive damages. *Id.* at 177 (emphasis supplied).

In short, in applying the guidepost methodology and the *de novo* standard of review embraced in *Cooper Industries*, some appellate courts, such as the Sixth Circuit, seem to have been led to concentrate on the trees and to lose track of the broader objectives and doctrine. The "strong presumption of validity" of punitive damages awards underscored by the plurality in *TXO*, 509 U.S. at 457, and by Justice Breyer in his *Gore* concurrence, is nowhere in sight in those jurisdictions. The consideration of damages "run wild" is not on the

radar of many courts of appeals, including the Sixth Circuit, which did not use the term "grossly" excessive at all in its analysis in this case – only the far milder and disapproved "excessive" terminology.

But if the common-law process for adjudicating punitive damages awards is to be retained, as *Pacific Mutual* holds, then some degree of nonuniformity is inevitable. If courts, acting on *de novo* review, are free to overturn jury verdicts that, to them, seem excessive, then the initial objectives of judicial intervention will have become adulterated. Reasonableness, fairness, and proportionality have been the goals of punitive damages review; only "grossly excessive" outliers are barred by substantive due process. But that was not the analysis in this case, and that has not been the analysis adopted by a number of appellate courts.

D. Circuits And State Courts Split On Repeated Conduct Element Of Reprehensibility.

The Sixth Circuit's decision warrants review for a final reason relating to the meaning of one of the reprehensibility factors, repeated conduct. The Sixth Circuit followed circuit precedent in holding that a defendant cannot qualify as a "repeated wrongdoer" under the guidepost unless the acts in question were committed against different parties, other than the plaintiff. 507 F.3d at 487. The lower courts are divided on the question.

The Sixth Circuit held that Westbound had not satisfied the "repeated conduct" element of the reprehensibility criteria, because it had not offered proof of conduct by Defendants against third parties. That decision conflicts with what other federal and state courts have accepted as "repeated conduct."

The Second Circuit has agreed with the Sixth Circuit. *See Lee v. Edwards*, 101 F.3d 805, 809 (2d Cir. 1996) (citing need for evidence of repeated misconduct with respect to other employees rather than repeated misconduct against the plaintiff). Other appellate courts have held, contrary to the Sixth and Second Circuit, that repeated conduct may include conduct directed against the same plaintiff: *See, e.g., CGB Occupational Therapy, Inc. v. RHA Health Servs.*, 499 F.3d 184, 191 (3d Cir. 2007) ("repeated conduct" against the same plaintiff "relevant" in measuring the reprehensibility of the defendant's conduct); *Southern Union Co. v. Southwest Gas Corp.*, 415 F.3d 1001, 1010 (9th Cir. 2005)(conduct toward same plaintiff, including improper litigation tactics against same plaintiff, could establish reprehensibility); *Superior Fed. Bank v. Jones & Mackey Constr. Co.*, 219 S.W.3d 643 (Ark. Ct. App. 2005) (a course of conduct involving the same plaintiff could satisfy the "repeated wrongdoing" test); *Century Surety Co. v. Polisso*, 43 Cal. Rptr. 3d 468, 499-500 (Cal. Ct. App. 2006) (repeated conduct against the same plaintiffs satisfied reprehensibility criteria); *Hayes Sight & Sound, Inc. v. ONEOK, Inc.*, 136 P.3d 428, 447 (Kan. 2006)(defendant's conduct was reprehensible

because it "was not an isolated incident," even though all the evidence referred to the single natural gas well involving plaintiff).

This Court should grant review to address the divergent approaches by the lower courts. The Sixth Circuit's decision has created precisely the constitutional risk that the Court condemned in *State Farm* and *Philip Morris* - namely, that juries and trial courts might use punitive damages to punish a defendant for wrongdoing against absent parties rather than against the plaintiff. *See* 538 U.S. at 422-23; 127 S. Ct. at 1062. Conversely, when the repeated acts are all directed at the plaintiff in a common course of conduct before the court, the acts necessarily share a joint focus, and the defendant has ample ability to obtain relevant evidence and mount a defense. The repeated conduct inquiry should be deemed jury factfinding subject to clear error review on appeal.

II. ADDITIONAL STRUCTURE IS NEEDED TO ASSURE CONSISTENCY IN DUE PROCESS JURISPRUDENCE.

This Court should take this case to continue its approach of providing additional structure to assure that only the "grossly excessive" punitive awards are invalidated. There are a number of ways that this should be done.

The Court should embrace as binding doctrine the framework of the plurality in *TXO*, 509 U.S. at 457, and of Justice Breyer's concurrence in *Gore*, 517 U.S. at 586-87, by expressly noting that a jury award of punitive damages in a ratio of compensatory-to-punitive-damages of less than 10:1 carries a presumption of validity, absent a finding of passion or prejudice on the part of the jury or lack of malice on the part of the tortfeasor. This would suggest a threshold analytical approach in which the centrality of malice and jury "bias, caprice or passion" would be reinforced. The threshold presumption would not attach when either (i) malice by the tortfeasor is absent, *cf.* TXO, 509 U.S. at 468-69 (Kennedy, J., concurring in judgment), or (ii) passion or prejudice by the jury is present. In the absence of a "verdict [that] discloses such great disproportions as to suggest the possibility of bias, caprice, or passion," TXO, 509 U.S. at 481 (O'Connor, J., dissenting), other evidence of jury bias, passion or prejudice would be required to nullify the presumption of validity. *State Farm* strongly suggests that a punitive-to-compensatory-damage ratio of 10:1 or more would suffice to nullify any presumption of validity as it supports an inference of bias, passion, or prejudice *Cf. Pacific Mutual*, 499 U.S. at 41 (Kennedy, J., concurring in judgment)("A verdict returned by a biased or prejudiced jury no doubt violates due process, and the extreme amount of an award compared to the actual damage

inflicted can be some evidence of bias or prejudice in an appropriate case").

In *Cooper Industries*, this Court analogized the punitive damages proportionality doctrine to the proportionality doctrine of the Eighth Amendment. Only "grossly excessive" penalties are constitutional violations. 532 U.S. at 433-35. The *Cooper Industries* Court relied on *United States v. Bajakajian*, 525 U.S. 321 (1998), an excessive fines case, to hold that appellate review of punitive damages determinations by District Courts is *de novo*. By similar analogy, this Court should expressly adopt the distinction drawn in *Bajakajian* between strict and gross proportionality, which the Court in *Cooper Industries* strongly suggested. 532 U.S. at 434 (noting that cases such as *Bajakajian* adopted a standard that invalidated punishments that were "grossly disproportional to the gravity of ... defendant[s'] offenses"). The Court in *State Farm* signaled that a single-digit ratio of punitive to compensatory damages might be an outer bound of permissible punitive awards, although not a mathematically determinative rule. But a result of the *State Farm* language has been a deemphasis on the overall standard itself – "gross" excessiveness of punitive awards. The "gross excessiveness" standard needs reinforcement by express embrace of a "gross" proportionalilty requirement, not a "strict" proportionality requirement. *Bajakajian*, 525 U.S. at 336. *See also Harmelin v. Michigan*, 501

U.S. 957, 997, 1001 (1991)(Kennedy, J., concurring in judgment) (recognizing in Eighth Amendment context the requirement of "narrow proportionality," which rejects "greatly disproportioned" sentences, but not a requirement for "strict proportionality between crime and sentence"); *Ewing v. California*, 538 U.S. 11, 20-24 (2003)(plurality)(*semble*).

Guidelines are needed for clarifying and shaping the role of appellate courts in applying the *Cooper Industries de novo* review standard. *Cooper Industries* held that courts of appeals should apply a "*de novo*" standard of review "when passing on district courts' determinations of the constitutionality of punitive damages awards." 532 U.S. at 436. Two components of *Cooper Industries* need emphasis to assure the appropriate role of appellate courts.

- First, district court factual findings "must be accepted unless clearly erroneous." *Id.* at 435. In this case, the Court of Appeals found that Petitioner "is not a financially vulnerable victim," without any reference to the jury's findings. 507 F.3d at 487. The Court of Appeals second-guessed the jury regarding what inference to draw from Defendants' failure to secure approval to use Westbound's sound recording when Defendants had declined to use copyrighted materials from a prominent songwriter whose estate had denied

permission for use. The Court of Appeals also rejected the inference that Defendants' conduct was "repeated," by concluding that such conduct could not be repeated when directed at one Plaintiff, even over many years and a multitude of incidents. And, while accepting the jury's finding that "defendants acted willfully," *id.* at 486, the Court of Appeals denigrated this conclusion by stating that there was "not a strong showing of intentional malice or deceit." The strength of such a showing is a finding of fact – something that is within the purview of the jury to determine. Only the legal significance of such a showing is subject to *de novo* review under *Cooper Industries*. Jury findings regarding factual components of the reprehensibility guidepost should be given deference under the "clear error" standard, not reviewed under the "*de novo*" review standard.

- Second, *Cooper Industries* does not alter the substantive standard – a requirement that, to violate due process, a punitive award must be "grossly" excessive, not just "excessive." *De novo* appellate review is not a license to overturn jury punitive damages awards because an appellate court would decide the matter differently upon consideration of the guideposts. It is only where the jury award is so excessive that it undermines the principle of "fair

warning" to a defendant or the principle of "gross" proportionality that appellate intervention is warranted. *De novo* review allows an appellate court to review a district court's determination anew, but it does not permit an appellate court to serve as a junior varsity jury – unless that jury's verdict is "run wild" and is so excessive as to strongly suggest bias, passion, or prejudice. In this case, defendants expressly claimed that the jury verdict was the result of passion and prejudice, but the district court and the court of appeals both rejected that claim.

This case provides a good vehicle for the Court to review and clarify the role of appellate courts in reviewing punitive damages claims.

CONCLUSION

This Court should grant the Petition for Writ of Certiorari.

Respectfully submitted,

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APPENDIX

APPENDIX A

UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

BRIDGEPORT MUSIC, INC.; WESTBOUND RECORDS, INC.,
Plaintiffs-Appellees,

v.

JUSTIN COMBS PUBLISHING and BAD BOY ENTERTAINMENT, individually and doing business as Bad Boy Records; UNIVERSAL RECORDS, a division of UMG Recordings, Inc.; UMG RECORDINGS, INC.; BAD BOY LLC,
Defendants-Appellants.

No. 06-6294

Appeal from the United States District Court for the Middle District of Tennessee at Nashville.
No. 05-00155 – Todd J. Campbell, Chief District Judge.

Argued: July 19, 2007

Decided and Filed: October 17, 2007

Before: MARTIN and ROGERS, Circuit Judges; HOOD, District Judge.

The Honorable Denise Page Hood, United States District Judge for the Eastern District of Michigan, sitting by designation.

OPINION

ROGERS, Circuit Judge. Plaintiffs, Bridgeport Music, Inc., and Westbound Records, Inc., owned the copyright to the Ohio Players' song, "Singing in the Morning." Defendant music publishers[1] released the Notorious B.I.G. album *Ready to Die*, the title song of which contained an unlicensed sample of "Singing in the Morning." After plaintiffs brought suit against defendants for copyright infringement, a jury found in favor of plaintiffs and awarded compensatory and punitive damages. Bridgeport elected statutory damages under the federal Copyright Act, *17 U.S.C. § 101 et seq.*, and received the maximum award of $150,000. Westbound received its one-half share of compensatory damages, $366,939, and punitive damages in the amount of $3.5 million.

Defendants make ten arguments on appeal: (1) the jury verdict was the result of passion and prejudice; (2) the district court erroneously excluded evidence that defendants argue demonstrates that they did not infringe willfully; (3) the district court erroneously bifurcated the trial into liability and punitive damages phases after the trial had commenced; (4) UMG was released from liability; (5) the district court erred by failing to apportion compensatory damages between the infringing and non-infringing portions of the song and album; (6) the jury's award of compensatory damages improperly included compounded interest; (7) the jury's award of compensatory damages improperly

[1] Janice Combs Publishing, Inc. d/b/a Justin Combs Publishing ("JCP"), Bad Boy Entertainment, Inc. d/b/a Bad Boy Records ("BBE"), Bad Boy Records LLC ("BBLLC"), and Universal Records/UMG Recordings ("UMG").

included prejudgment interest; (8) the jury's selection of May 4, 1998, as the date from which prejudgment interest should be calculated was in conflict with state law; (9) the jury's $3.5 million punitive damage award was unconstitutionally excessive; and (10) the district court erred by entering an injunction and impoundment order.

Defendants are correct only with respect to issues six, seven, eight, and nine. The jury's compensatory damage award appears to have been the result of a mistake, which resulted in the award's including compounded, prejudgment interest. The date that the jury selected for the time from which prejudgment interest should be awarded was the beginning of the statute of limitations period, and thus conflicts with New York law (which governed Westbound's claims). The punitive damages award violates due process when measured against defendants' conduct, the harm that plaintiffs suffered, and the statutory damages that federal law permits. The other issues raised by defendants are without merit. We remand with instructions for the district court to offer plaintiffs a remittitur with respect to the compensatory and punitive damages award and to select a reasonable date from which to calculate prejudgment interest.

I.

Christopher Wallace a/k/a Notorious B.I.G. was one of the rap world's biggest stars in the mid-1990s. In 1994, Bad Boy Entertainment, Inc., d/b/a Bad Boy Records ("BBE"), as a joint- venturer with Arista Records, Inc., released Notorious B.I.G.'s first album, *Ready to Die*. The album was a tremendous success,

selling millions of copies and attaining multi-platinum status. A version of the album with additional content was later re-released in 2004.

The title song of the album, "Ready to Die,"[2] was produced by Osten Harvey, Jr. Sean "Diddy" Combs, BBE's principal, objected to the use of Jimi Hendrix's "Power of Love" as a sample in "Ready to Die" because the Hendrix song was denied clearance. Harvey then substituted a portion of the Ohio Players' song "Singing in the Morning." BBE did not obtain a license to "Singing in the Morning" and authorized the release of *Ready to Die* with the understanding that not all samples on the album had been cleared.

A funk group, the Ohio Players, had released "Singing in the Morning" in 1972. Bridgeport Music, Inc. owned the copyright to the musical composition "Singing in the Morning," and Westbound Records, Inc. owned the common-law copyright to the sound recording embodying the musical composition of "Singing in the Morning."

Between April 16, 1998, and September 30, 1999, Jane Peterer, Administrator at Bridgeport, wrote letters (hereinafter referred to as "the Peterer letters") to BMG Records (which is a part of Arista Records), EMI Music Publishing (which, according to plaintiffs, administers JCP), and Big Poppa Music. In the letters, Peterer claimed that "Ready to Die" infringed on Bridgeport's copyright to "Singing in the Morning" and requested "a share of 25% of the new copyright 'Ready to Die'" to be made retroactive.

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[2] Throughout this opinion, I follow the convention of placing the album name in italics and the song name in quotation marks.

Plaintiffs did not receive a favorable response to the Peterer letters. On February 25, 2005, plaintiffs filed a complaint against defendants in the United States District Court for the Middle District of Tennessee.[3] This action was related to an earlier lawsuit filed May 4, 2001, and the parties stipulated that the action would be deemed to have been filed on that date for statute of limitations purposes. Although both Bridgeport and Westbound initially sued under the federal Copyright Act, an amended complaint pleaded alternative claims of common law copyright infringement, unfair competition, and misappropriation. The district court dismissed Westbound's claims under the federal Copyright Act because the sound recording, to which Westbound owned the rights, was not fixed in a tangible medium on or after February 15, 1972, *see 17 U.S.C. § 301(c)*, but held that New York law governed Westbound's common law claims. Thus, at trial, Bridgeport was seeking relief under the federal Copyright Act and Westbound was seeking relief under New York common law. Both plaintiffs also sought punitive damages.

A nine-day trial ensued. Although neither party asked for, nor was in favor of, bifurcation, the district court decided, *sua sponte*, during the defendants' case-in-chief, to bifurcate the trial into liability and punitive damages phases. During closing arguments, plaintiffs' counsel asked the jury to award damages in the amount of $733,878 each to

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[3] The Estate of Christopher Wallace a/k/a Notorious B.I.G. on behalf of Big Poppa Music was initially a defendant in this action, but was dismissed by order of the court after a compromise and settlement was reached with plaintiffs.

both Bridgeport and Westbound, and stated that although plaintiffs could not "collect double," the district court would "make sure that there is no double recovery."

On March 20, 2006, a jury found each of the defendants liable to Bridgeport for copyright infringement under the federal Copyright Act. The jury awarded Bridgeport actual damages and profits of $733,878, and, in the alternative, statutory damages of $150,000.

The jury also found each defendant, other than JCP, liable to Westbound under New York common law for copyright infringement and unfair competition. The jury awarded Westbound damages of $733,878. The jury chose May 4, 1998, as the date from which prejudgment interest would be awarded to Westbound. The jury also decided that Westbound was entitled to punitive damages against each defendant. After the punitive damages portion of the trial, the jury awarded Westbound punitive damages of $1.5 million from Bad Boy Entertainment, $1 million from Bad Boy, LLC, and $1 million from Universal Records/UMG Recordings, Inc.

After the jury verdict, on April 28, 2006, defendants filed a "Motion for Mistrial or Modification of Verdict." Among other things, defendants argued that plaintiffs were entitled to receive one compensatory judgment award of $733,878, and that Bridgeport and Westbound were not both entitled to separate awards of $733,878 each. The district court noted that plaintiffs' counsel argued during closing remarks that the district court would prevent double recovery, and did just that by ruling that the compensatory damages would

be split equally between Bridgeport and Westbound. Because Bridgeport elected statutory damages, *see 17 U.S.C. § 504(c)(1)*, the district court ruled that Bridgeport would receive $150,000 in statutory damages under the federal Copyright Act, whereas Westbound would receive its share of the compensatory damages award, $366,939. In addition, the district court awarded Westbound $276,763.93 in prejudgment simple interest from May 4, 1998. The district court, however, ruled against defendants with respect to their arguments about the exclusion of post-litigation settlement offers, bifurcation, apportionment of damages, punitive damages, and the date from which prejudgment interest should have been awarded.

II.

Defendants raise three issues on appeal that, if we were to agree had merit, would require a new trial. These issues, however, do not have merit and therefore we affirm the district court's judgment entered on the verdict with respect to these issues.

A. Passion & Prejudice (Issue 1)

The district court did not abuse its discretion by denying defendants' post-verdict motion for a mistrial based on defendants' arguments that the verdict was the result of the "passion and prejudice" of the jury. We reach this conclusion because the purportedly improper comments made by plaintiffs' counsel were not sufficiently prejudicial. If statements made during the course of closing arguments are improper, then this court may only set aside the verdict if "there is a reasonable

probability that the verdict" was influenced by those arguments. *Strickland v. Owens Corning, 142 F.3d 353, 358 (6th Cir. 1998)* (quotation omitted). Defendants did not object to the purportedly improper statements made by plaintiffs' counsel during closing argument and instead raised this issue for the first time in a post-trial brief that they filed on May 31, 2006. Because defendants failed to object during closing arguments, we require a heightened degree of prejudice in order to grant a new trial. *Id.*; *see also Portis v. Grand Trunk W. R.R. Co., No. 93-1721, 1994 U.S. App. LEXIS 17399, at *10-12 (6th Cir. July 12, 1994)* (reviewing for "gross injustice" where party failed to object).

In the context of the entire closing argument and trial, the comments of plaintiffs' counsel were not sufficiently prejudicial to warrant a new trial. Defendants refer to a number of statements that plaintiffs' counsel made during closing arguments, but do not explain why each statement was improper. From the context of defendants' argument, it appears that they are arguing that some of these statements constituted improper appeals to local bias and that other statements improperly referred to defendants as large corporations. For example, plaintiffs' counsel argued to the jury, "This is a joke. They think they can come down here to Nashville, Tennessee, and pull a fast one on the six of you." Plaintiffs' counsel also argued,

> If it is okay to be looked down on and if it is okay to do what the defendants did, then I guess you have to tell them that. But if it is not okay, if in Nashville, Tennessee, we're not going to put up with

> that, then it is up to you. You six people today stand for the community that we live in.

With respect to punitive damages, plaintiffs' counsel repeatedly asked the jury to "tell the world that [what defendants did] is not going to happen in Nashville, Tennessee." Plaintiffs' counsel also, one time, referred to one of the defendants as a "multi-million dollar company," and implied that defendants' expert was "a fancy guy from New York."

Cases relied on by plaintiffs are distinguishable. In *Whitehead v. Food Max, 163 F.3d 265, 275-78 (5th Cir. 1998)*, the Fifth Circuit held that counsel's comments that appealed to local bias were prejudicial where counsel also ignored the district court's rulings on objections made by the other party and when considered with other prejudicial comments, including counsel's "improper 'Golden Rule' argument," and the size of the jury's verdict. In *Pingatore v. Montgomery Ward & Co., 419 F.2d 1138, 1142-44 (6th Cir. 1969)*, this court held that a new trial on damages was required when, during closing arguments, plaintiffs' counsel cursed, shouted, tore papers used by opposing counsel, and placed an empty chair before the jury and asked where the defendant corporation was. Here, there is no similar outrageous conduct by plaintiffs' counsel other than the improper references to Nashville and New York. Defendants only point to the fact that the jury deliberated for less than three-and-one-half hours and awarded plaintiffs the same amount of damages that plaintiffs demanded. Together, these considerations do not rise to the level of prejudice that would require a new trial.

The district court also did not abuse its discretion by rejecting defendants' argument that the amount of compensatory damages that the jury awarded was not supported by proof, and thus could only have been the product of prejudice, because the jury awarded the same amount of damages that plaintiffs demanded. Plaintiffs asked for $733,878 in damages each for Bridgeport and Westbound, and the jury complied. In a post-trial brief in response to the district court's order requesting briefing on remaining issues of law, plaintiffs stated that Westbound was only entitled to $706,888 because the amount that they asked for and were given by the jury included $28,140 in profits for JCP, to which plaintiffs conceded they were not entitled.[4] But defendants point out that if one were to add the $28,140 that Westbound excluded to the $706,688 that plaintiffs stated in their post-trial brief that Westbound was entitled to, the resulting amount is $734,828, not the $ 733,878 that plaintiffs requested from the jury. Defendants also argue that the damages award cannot be supported by the testimony of plaintiffs' expert on damages, Dr. Michael Einhorn, who testified at length about defendants' profits and plaintiffs' damages. Dr. Einhorn showed the jury slides that summarized his testimony and prepared an expert report in which he calculated defendants' profits and plaintiffs' damages. According to Dr. Einhorn's testimony, Bridgeport's total damages award should have been $842,688, with interest, and $768,232, without

[4] The district court did not make such an adjustment, and awarded Westbound instead its 50% share of the $733,878 jury verdict. Defendants do not challenge that decision in this appeal.

interest, and Westbound's total damages award should have been $758,634, with interest, and $688,523, without interest.

To the extent that the jury included compounded, prejudgment interest in the damages award, the award was supported by the evidence, as the award was--without the interest--less than Dr. Einhorn's estimates for both plaintiffs. It strongly appears that the jury did include compounded, prejudgment interest, as discussed separately in Part III.B., *infra*. Even if the jury did not consider compounded, prejudgment interest in calculating the damages award, the district court did not abuse its discretion. The jury was within a range supported by Dr. Einhorn's testimony, and even defendants' counsel during closing argument stated that Dr. Einhorn's testimony supported a damages award of "$800,000." Perhaps the jury was sloppy in calculating a damages award, and perhaps the jury thought that the number plaintiffs argued was the correct amount supported by the evidence, but given that the jury awarded an amount in a range that the evidence supported, and lower than the amount that defendants argued that plaintiffs' evidence supported, no gross injustice occurred.

B. Exclusion of Willfulness Evidence (Issue 2)

The district court properly precluded defendants from offering as evidence, during the liability phase of the trial, defendants' post-litigation settlement offers, which defendants argue constitute evidence that they did not infringe willfully. Under the federal Copyright Act, a plaintiff may receive up to $150,000 in statutory damages if "the infringement

was committed willfully." *17 U.S.C. §504(c)(2).*[5] Under New York law, punitive damages for common law copyright infringement and unfair competition are available "where a wrong is aggravated by recklessness or willfulness." *Roy Export Co. v. CBS, Inc., 672 F.2d 1095, 1106 (2d Cir. 1982).* The jury ultimately found that defendants' infringement was willful.

Defendants' evidence of post-litigation settlement attempts was inadmissible under *Federal Rule of Evidence 408. Rule 408* provides that settlement offers are "not admissible to prove liability for or invalidity of the claim or its amount" but "does not require exclusion when the evidence is offered for another purpose." *Fed. R. Evid. 408* (2005). The district court held that defendants' evidence fell within the exclusion clause of *Rule 408* and that the "another purpose" clause did not apply because "the other purpose for which [the evidence] is offered is not appropriate." Further, in a post-trial order denying defendants' Motion for Mistrial or Modification of Verdict with respect to the admissibility of settlement evidence, the district court noted, "Defendants were permitted to introduce such evidence during the punitive damages phase of the trial, and the jury nevertheless awarded punitive damages. Defendants were also permitted to introduce evidence regarding the Peterer pre-litigation letters at the liability phase of the trial."

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[5] If the infringement was not willful, then a plaintiff may receive statutory damages of between $750 and $30,000. *17 U.S.C. § 504(c)(1).*

The district court's exclusion of defendants' evidence under *Rule 408* was not an abuse of discretion, *United States v. Perry, 438 F.3d 642, 647 (6th Cir. 2006)*, because the evidence was not relevant to the issue of liability.[6] One of the principal justifications for *Rule 408* is that evidence of settlement offers is irrelevant. *See Fed. R. Evid. 408* (Advisory Committee Notes); *Urseth v. City of Dayton, 680 F. Supp. 1084, 1098 (S.D. Ohio 1987)* ("[A] settlement offer or the fact of settlement negotiations is not direct evidence regarding the factual issues in a case."). Here, the only issue to which the evidence of settlement offers might have been relevant was to show that defendants did not act reprehensibly, and that plaintiffs were thus not entitled to a large punitive damages award. However, the fact that defendants offered to settle a lawsuit already brought by plaintiffs for past acts of infringement is not at all probative of whether defendants infringed willfully, and such a fact, therefore, was not relevant.

Defendants' arguments for why the district court erred are unpersuasive. First, defendants argue that evidence of settlement offers does not in this case "contravene *Rule 408* or its spirit" because the goal of *Rule 408* is to encourage settlement offers (and here, the offerors were the parties seeking to admit the offers). However, there is an alternative goal of *Rule 408*, discussed above, which is to exclude

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[6]Defendants also argue that the evidence was admissible under New York law. That argument is without merit because federal procedural law, which includes federal rules of evidence governing the admissibility of evidence, not state law, applies to cases in federal courts. *See, e.g., Surles ex rel. Johnson v. Greyhound Lines, Inc., 474 F.3d 288, 296 n.1 (6th Cir. 2007).*

evidence that is frequently irrelevant. Second, Defendants argue that the evidence of settlement offers was offered for "another purpose," namely, to rebut plaintiffs' evidence of willfulness. Although rebutting evidence that another party introduces may be an acceptable other "purpose" under *Rule 408*, defendants' evidence here did nothing to rebut plaintiffs' evidence. Whereas plaintiffs' evidence of its pre-litigation settlement offers was probative of the fact that defendants had knowledge of, but disregarded, the infringement, defendants' evidence was not relevant to knowledge of the infringement. Instead, defendants' evidence purported to demonstrate that defendants did not have a "malicious" state of mind. This was not relevant to the issue of whether defendants infringed willfully. In addition, the district court did not prohibit defendants from rebutting plaintiffs' willfulness allegations with relevant evidence, such as evidence of how defendants responded to the Peterer letters. *See* J.A. 114. Furthermore, the district court permitted defendants to offer their evidence of settlement offers during the punitive phase of the trial, where that evidence actually might have been relevant.

Because the evidence that defendants sought to have admitted was not relevant to any issue that the jury needed to decide, the district court's alternative holding that the evidence "would confuse the jury," and thus was inadmissible under *Federal Rule of Evidence 403*, was also not an abuse of discretion. The evidence might, as the district court concluded, have improperly confused the jury, as it pertained to collateral and irrelevant events. Also, given the evidence's lack of probative value, the risk of unfair

prejudice "substantially outweighed" the evidence's probative value.

Finally, even if the district court erred by excluding defendants' evidence, such error would have been harmless. During the punitive damages phase of the trial, defendants introduced the evidence that was excluded from the liability phase, yet the jury still awarded Westbound $ 3.5 million in punitive damages. If the excluded evidence would have made a difference with respect to the jury's determination that defendants acted willfully, surely the jury would not have awarded such a large amount of punitive damages (so large, in fact, that defendants argue it violated due process) after hearing the evidence.

C. Bifurcation (Issue 3)

The district court did not abuse its discretion by bifurcating the trial into liability and punitive damages phases. "The court, in furtherance of convenience or to avoid prejudice, or when separate trials will be conducive to expedition and economy, may order a separate trial of any claim . . . or of any separate issue . . . ." *Fed. R. Civ. P. 42(b).* A district court's decision to bifurcate a trial is reviewed for an abuse of discretion. *Wilson v. Morgan, 477 F.3d 326, 339 (6th Cir. 2007).* Here, defendants argue that the district court abused its discretion by bifurcating the trial during defendants' case-in-chief, and thus prejudiced defendants by admitting only plaintiffs' evidence relevant to the issue of punitive damages during the liability phase. Although "[s]ound judicial practice requires that, so far as practicable, the trial court's decision to bifurcate proceedings occur prior

to trial," *Helminski v. Ayerst Labs., 766 F.2d 208, 213 n.3 (6th Cir. 1985)*, "[t]he late bifurcation of a trial does not constitute reversible error in the absence of a showing of prejudice," *id. at 212.*

Defendants were not, however, prejudiced by the district court's decision. Defendants sought to admit evidence of their settlement offers that they argue would have rebutted plaintiffs' evidence of plaintiffs' settlement offers. The district court, upon learning that defendants were going to present this evidence, decided to bifurcate the trial. *See* J.A. 2912-13 ("As a result of the position of the defendant, I am going to bifurcate this hearing . . . . I want to make it clear as a result of your request I am now going to bifurcate the punitive damage issue because I think that's more appropriate given the testimony you seek to offer, so we're going to bifurcate the punitive damage issue. We're not going to have any settlement evidence before this jury on the liability question.").[7] But as discussed above in Part II.B., defendants' evidence of settlement offers was not relevant to the issue of liability, whereas plaintiffs' evidence of settlement offers showed that defendants' had notice of the infringement, and thus was relevant.

Defendants argue that they were prejudiced by the bifurcation because plaintiffs were able to introduce all of their evidence with respect to punitive damages during the liability phase. It is true that plaintiffs stated to the district court, "I think that the proof that we have put on, quite frankly, is sufficient to the extent that Your Honor is going to allow settlement, any type of settlement

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[7]The district court later denied defendants' motion for a mistrial on these grounds.

discussions to be admitted." But plaintiffs specifically limited this statement to "settlement" evidence, and in fact plaintiffs did present evidence at the punitive damages phase of the trial. In any event, the evidence that defendants sought to admit during the liability phase did not concern the issue of whether defendants acted willfully, while plaintiffs' evidence was relevant to the issue of willfulness (as discussed in Part II.B., *supra*), and the fact that plaintiffs' evidence was also relevant with respect to the amount of punitive damages did not place a legal impediment to the district court's bifurcating the trial.[8] Furthermore, when defendants did introduce their evidence during the punitive damages phase of the trial, the jury nonetheless awarded a very large amount of punitive damages, which indicates that any error by the district court in bifurcating the trial was harmless.

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[8]Defendants also argue that plaintiffs introduced "evidence as to issues solely appropriate for the second component of the trial." Defendants list as this evidence their gross revenue and profits for 2003-2005, assets of Bad Boy entities, and gross sales of the album *Ready to Die*, including sales before the relevant statute of limitations period. However, defendants refer this court to pages 2997-3009 of the joint appendix, which is the transcript of plaintiff's cross-examination of a defense witness who testified during defendants' case-in-chief *after* the district court bifurcated the trial. At that point, defendants could have objected to the evidence for relevancy, and the district court did not plainly err by not excluding the evidence *sua sponte*.

III.

With respect to the issues that defendants raise regarding the amount of damages that the jury awarded, the district court did not err by entering judgment on a verdict where, according to defendants, the amount of damages failed to allocate profits to account for the fact that the damage award included profits from non-infringing material. However, the verdict was improper to the extent that it included prejudgment and compound interest, included a calculation of interest from an incorrect date, and included unconstitutionally excessive punitive damages.

A. Failure to Allocate Profits (Issue 5)[9]

The $733,878 in compensatory damages that the jury awarded did not, as defendants argue, impermissibly include profits not attributable to the infringement. A victim of copyright infringement may recover "any profits of the infringer that are attributable to the infringement." *17 U.S.C. § 504(b); see also Sheldon v. Metro-Goldwyn Pictures Corp., 309 U.S. 390, 399, 60 S. Ct. 681, 84 L. Ed. 825 (1940)* (interpreting an earlier version of this statute). "In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work." *17 U.S.C. § 504(b); see also Johnson v. Jones, 149 F.3d 494, 506 (6th Cir.*

[9]Issue 4, relating only to one defendant (UMG), is dealt with separately *infra*.

1998) (applying burden-shifting approach of statute); *Sheldon, 309 U.S. at 406* ("Where there is a commingling of gains, [the infringer] must abide the consequences, unless he can make a separation of the profits so as to assure to the injured party all that justly belongs to him.").

Here, plaintiffs met their initial burden of presenting proof of defendants' gross revenue. Plaintiffs presented evidence of defendants' profits from the album *Ready to Die.* Plaintiffs then estimated a fair allocation of profits to the song "Ready to Die" by dividing the album profits by the number of tracks on the album. (Plaintiffs used the same methodology for the original album, which contained seventeen tracks, and the re-release version of the album, which contained nineteen tracks.) The jury's verdict reflected this allocation.

The jury acted within its province when it rejected defendants' argument that plaintiffs' allocation included profits attributable to non-infringing elements of the song "Ready to Die." Defendants point to the testimony of their expert musicologist, Dr. Lawrence Ferrara, who evaluated the length of the infringing material in "Ready to Die" relative to the overall song, the licensing fee that an owner licensing the infringing material could have received, and the overall importance of the infringing material to the song, and concluded that the relative value of the infringing material was approximately 20.5%. Defendants also argue that the jury failed to consider that the song was memorable (and successful) because of certain lyrics

relating to Notorious B.I.G.'s life and death.[10] But, as the Eighth Circuit said in *Andreas v. Volkswagen of America, Inc.*, "[t]he question of allocating an infringer's profits between the infringement and other factors, for which the defendant infringer carries the burden, is 'highly fact-specific' . . . and should [be] left to the jury." *336 F.3d 789, 797-98 (8th Cir. 2003)* (citation omitted). Because the jury simply returned a numerical amount for damages, and did not specify how it calculated damages, there is no way of knowing the jury's reasons for rejecting defendants' arguments. The jury could have agreed with Dr. Alexander Stewart, an expert witness for plaintiffs, who testified that defendants' expert, Dr. Ferrara, improperly employed a "strictly mathematical approach" in calculating the value of the infringing material to the song and that this failed to "tak[e] into account the significance of the passage to" the song. Or the jury could have simply not believed the testimony of defendants' expert witnesses in light of the jurors' having heard the song and concluded that the infringing material was a much more valuable component of the song. In any event, permitting the jury to determine that defendants failed to meet their burden of proving profits attributable to factors other than the infringing material was not reversible error.

The jury also acted within its province when it rejected defendants' argument that plaintiffs'

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[10] Defendants also argue that plaintiffs' own analysts concluded that the infringing sample's value to the song "Ready to Die" was 25%. The "25%" figure was one that plaintiffs calculated for settlement purposes, and the jury could have reasonably determined that the actual profits that corresponded to the infringing material were much higher.

allocation failed to consider that the song "Ready to Die" contributed little to the success of, and therefore the profits from, the album *Ready to Die*. The jury could have agreed with plaintiffs' expert, Dr. Einhorn, who testified that over "the course of time, . . . all songs do tend to contribute equally" to the profits of an album and that although factors such as radio play, promotion, and music videos for particular songs might initially drive album sales, "it is not clear to [him] how to determine what song had any more or less salability ten years down the road." The jury also could have agreed with Dr. Einhorn that, with respect to the re-release of the album, which contained new material, "[i]t is very difficult to determine without any kind of objective evidence, any kind of survey how much in that constellation of different new products was attributable to the new songs that were added" at the time of the re-release. Or the jury could have found simply that defendants' subjective evidence on the value of the song to the album as a whole was insufficiently persuasive to meet defendants' burden.

B. Inclusion of Compound and Prejudgment Interest in Damages (Issues 6 & 7)

The amount of compensatory damages that the jury awarded, however, mistakenly included compounded, prejudgment interest.[11] "This Circuit has determined a jury verdict should not be remitted by a court 'unless it is beyond the maximum damages that the jury reasonably could find to be compensatory for a party's loss.'" *Gregory v. Shelby*

[11]Plaintiffs do not argue that it was proper for the jury to have included interest as part of its verdict.

County, 220 F.3d 433, 443 (6th Cir. 2000) (quoting *Jackson v. City of Cookeville, 31 F.3d 1354, 1358 (6th Cir. 1994)).* An award must fall if, for example, it is "beyond the range supportable by proof" or is "the result of a mistake." *Id.* Here, it is evident that the jury award was the result of a mistake. Plaintiffs acknowledged in a post-trial brief that the amount that they requested from the jury included compounded prejudgment interest. *See* J.A. 1592. The jury awarded the same exact amount that plaintiffs requested, which Dr. Einhorn's testimony about the proper amount of damages excluding interest does not support. (Dr. Einhorn's testimony supported a total award to Westbound without interest of $688,523.) The district court noted that the jury was not required to accept the testimony of Dr. Einhorn and instead was permitted to exercise its own judgment, but this ignores the fact that the jury must rest its decision on the evidence, and if Dr. Einhorn's testimony about damages was the only evidence upon which the jury could rely, then the jury could not properly have awarded damages in a higher amount. Because plaintiffs mistakenly asked for a damages award that included compounded prejudgment interest, and the jury mistakenly awarded plaintiffs just that, we reverse this portion of the district court's order and remand so that the district court may offer Westbound a remittitur in the amount of damages excluding compounded prejudgment interest.

C. Date of Interest (Issue 8)

We also reverse that part of the district court's order denying defendants' post-trial motion with respect to the issue of the date from which

prejudgment interest should be assessed. Defendants argued in a post-trial motion to the district court that the jury did not choose a "single reasonable intermediate date" from which to award interest, as it was required to do under New York law. The district court denied the motion "because this issue was properly considered and resolved by the jury in accordance with the jury charge which accurately stated the law," and "[t]he jury reasonably selected May 4, 1998 as the date from which prejudgment interest may be awarded." Defendants argue that May 4, 1998, is not a "single reasonable intermediate date" because, even though defendants began exploiting plaintiffs' copyright earlier, that date represents the earliest date of the statute of limitations period.

New York law provides that,

> Interest shall be computed from the earliest ascertainable date the cause of action existed, except that interest upon damages incurred thereafter shall be computed from the date incurred. Where such damages were incurred at various times, interest shall be computed upon each item from the date it was incurred or upon all of the damages from a single reasonable intermediate date.

N.Y. C.P.L.R. § 5001(b) (McKinney 2007). The "single reasonable intermediate date" must be a date after "the earliest ascertainable date the cause of action existed." The obvious intent of this provision is to estimate prejudgment interest on damages that

plaintiffs receive. Reading the statute to mean that the "date the cause of action existed" can be a date earlier than the limitations period and that "a single reasonable intermediate date" can be the beginning of the limitations period necessarily awards prejudgment interest for damages incurred prior to the beginning of the limitations period. Because plaintiffs could not recover damages for infringement that occurred outside of the limitations period, they likewise could not receive prejudgment interest on damages incurred outside of the limitations period. Therefore, May 4, 1998, was not a "reasonable intermediate date."

New York law suggests that a remand for the district court to determine an appropriate date is appropriate. Defendants ask this court to select an intermediate date of April 1, 2002, the approximate midpoint between the date the limitations period began and the date the verdict was rendered. The district court, however, is in a better position, having heard the testimony in this case, to decide a reasonable intermediate date from which to assess interest. The statute provides that the date from which prejudgment interest should be calculated "shall be specified in the verdict," but that "[i]f a jury is discharged without specifying the date, the court upon motion shall fix the date." *Id. § 5001(c).* Although the statute does not speak to the situation where a jury returns a date inconsistent with the statute, this situation is analogous to one in which the jury returns no date at all. Therefore, the district court should fix the date for prejudgment interest.

D. Unconstitutionally Excessive Punitive Damages (Issue 9)

Westbound's $3.5 million punitive damages award is unconstitutionally excessive and violates due process. After conducting a de novo review, *see Bach v. First Union Nat'l Bank, 486 F.3d 150, 153 (6th Cir. 2007)*, we conclude that this award was excessive in light of the Supreme Court's three "guideposts" for evaluating the constitutionality of a punitive damages award-the reprehensibility of defendants' conduct, the disparity between plaintiffs' harm and the award, and a comparison of the award and civil penalties in comparable cases. *See State Farm Mut. Auto. Ins. Co. v. Campbell, 538 U.S. 408, 418, 123 S. Ct. 1513, 155 L. Ed. 2d 585 (2003); BMW of N. Am., Inc. v. Gore, 517 U.S. 559, 575, 116 S. Ct. 1589, 134 L. Ed. 2d 809 (1996).*[12]

1. Reprehensibility

Defendants' conduct was not so reprehensible as to justify a $ 3.5 million punitive damage award. "Perhaps the most important indicium of the reasonableness of a punitive damages award is the degree of reprehensibility of the defendant's conduct." *Gore, 517 U.S. at 575.* The Supreme Court has

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[12] Defendants could also have claimed that the district court abused its discretion by entering judgment on an excessive punitive damages award. *See Nardelli v. Stamberg, 44 N.Y.2d 500, 377 N.E.2d 975, 977, 406 N.Y.S.2d 443 (N.Y. 1978).* Instead, defendants chose to rely solely on the constitutional claim, and we accordingly address that issue only.

> instructed courts to determine the reprehensibility of a defendant by considering whether: the harm caused was physical as opposed to economic; the tortious conduct evinced an indifference to or a reckless disregard of the health or safety of others; the target of the conduct had financial vulnerability; the conduct involved repeated actions or was an isolated incident; and the harm was the result of intentional malice, trickery, or deceit, or mere accident.

State Farm, 538 U.S. at 419. "The existence of any one of these factors weighing in favor of a plaintiff may not be sufficient to sustain a punitive damages award; and the absence of all of them renders any award suspect." *Id.*

Only one of these factors is present in this case--the harm was the result of intentional malice or deceit. The jury concluded that defendants acted "willfully" in light of evidence that defendants ignored pre-litigation letters and re-released the album knowing that it contained an unauthorized sample. Defendants continue to argue that the use of the sample was due to a rogue producer (Harvey), that they did not receive the pre-litigation letters, and that they re-released the album under the impression that the present lawsuit would be settled. The jury, however, rejected these arguments and found that defendants acted willfully. Although not a strong showing of intentional malice or deceit, defendants' conduct was still somewhat reprehensible.

None of the other reprehensibility factors are present. First, the harm in this case (copyright infringement) was purely economic and did not threaten the health or safety of others (and Westbound does not argue otherwise).

Second, Westbound is not a financially vulnerable victim. Westbound argues that it is financially vulnerable because it is a small company that depends almost entirely on income from sampling, because defendants infringed "Singing in the Morning" instead of Jimi Hendrix's "Power of Love," and because defendants had "financial clout" and "strength in the music industry worldwide." Despite Westbound's size, Westbound has been a plaintiff in numerous similar lawsuits, and thus has been able to protect its rights in the courts. The fact that Westbound depends on income from sampling suggests that Westbound is not financially vulnerable, as its business model requires it vigilantly to sue on its copyrights. Defendants' refusal to use the Jimi Hendrix sample cuts both ways--it could mean that defendants actually tried to avoid copyright infringement, or it could mean, as Westbound argues, that defendants only avoided infringing copyrights owned by the powerful--but Westbound offers no evidence that the copyright owner of "Power of Love" was in a stronger financial situation than Westbound, a company that has proven its ability to protect its rights. Finally, defendants' wealth "cannot justify an otherwise unconstitutional punitive damages award," *State Farm, 538 U.S. at 427*, and thus should not be given great weight. *Clark v. Chrysler Corp., 436 F.3d 594, 604 (6th Cir. 2006).*

Finally, there is no evidence that defendants' infringement was one of a repeated number of actions. The repeated conduct factor "'require[s] that the similar reprehensible conduct be committed against various different parties rather than repeated reprehensible acts within the single transaction with the plaintiff.'" *Chicago Title Ins. Corp. v. Magnuson, 487 F.3d 985, 1000 (6th Cir. 2007)* (quoting *Bach v. First Union Nat'l Bank, 149 F. App'x 354, 356 (6th Cir. 2005))*. Here, Westbound argues that defendants' infringement involved repeated actions because defendants authorized the release of the *Ready to Die* album without confirming that all samples were legal and sampled "Singing in the Morning" on another track on the album. Westbound's first argument does not refer to other unlawful infringements, only the possibility that there were such acts (and defendants' indifference to that possibility). The second argument refers to the same transaction against the same plaintiff--the use of samples of "Singing in the Morning" on the *Ready to Die* album. Westbound also states that it is "patently unfair" for defendants to argue that they did not repeat the illegal sampling because defendants objected during trial to any references to other unauthorized samples. It was Westbound's obligation to introduce evidence of other unauthorized samples, and even though the district court excluded certain evidence of other ongoing lawsuits against defendants, Westbound fails to challenge those evidentiary rulings on appeal.

In this case where only one of the reprehensibility factors is present, a ratio in the range of 1:1 to 2:1 is all that due process will allow.

This conclusion is apparent from our court's precedent. In *Clark v. Chrysler Corp.*, this court held that a punitive damages award of $3 million was unconstitutional in light of a damages verdict of approximately $471,258.26, only 50% of which the plaintiff was awarded (pursuant to comparative negligence principles), where only the fact that the conduct resulted in physical harm, notably, the loss of life, weighed in favor of reprehensibility. *436 F.3d at 601, 605, 608* (Opinion of Restani, J.); *436 F.3d at 612-14* (Kennedy, J., concurring in part and concurring in the judgment). The court instructed the district court to enter a punitive damage award of approximately $471,258.26, which Judge Restani concluded was appropriate after applying a 2:1 ratio to the plaintiff's 50% share of compensatory damages, *id. at 608* (Opinion of Restani, J.), and Judge Kennedy concluded was appropriate after applying a 1:1 ratio to the total compensatory damage award. *Id. at 613-14* (Kennedy, J., concurring in part and concurring in the judgment). Also, in *Bach v. First Union National Bank*, this court, after having previously decided that a punitive damages award of approximately $2.6 million on top of a $400,000 compensatory damages award was unconstitutionally excessive because the only reprehensibility factor that weighed in favor of a large punitive damages award was that plaintiff, an elderly widow, was a vulnerable victim, held that the district court's remitted punitive damages award of approximately $2.2 million was still excessive and ordered the district court to remit punitive damages to $400,000. *486 F.3d at 154-56.*

Our conclusion is supported by a case from the Eighth Circuit that concluded that a 1:1 ratio was

appropriate where the compensatory damages award was large and the defendant's conduct was more reprehensible than in this case. In *Williams v. ConAgra Poultry Co.*, the court reversed a punitive damages award of approximately $6 million, which was on top of a $600,000 compensatory damages award for a racial harassment claim under *§ 1981. 378 F.3d 790, 792-93 (8th Cir. 2004).* The court concluded that the district court improperly relied on evidence of non-similar acts of harassment, but that the defendant's disparate treatment of plaintiff was still reprehensible in light of evidence that defendant extended certain benefits to white managers and employees that it did not offer to black managers and employees. *Id. at 797-98.* The court also considered the fact that Title VII capped punitive damages at $300,000, and that the $600,000 in compensatory damages was "a lot of money," and held that defendant's conduct was not "so egregiously reprehensible" to justify a punitive damages award of more than $600,000. *Id. at 798-99.*

2. Disparity

The disparity between compensatory and punitive damages in this case further supports the conclusion that the punitive damages award is unconstitutional, for three reasons. First, the ratio of the overall damages award to the punitive damages award--approximately 9.5:1 ($3.5 million / $366,939)--is large. Although the Supreme Court has repeatedly rejected the use of bright-line rules, it has cautioned that "few awards exceeding a single-digit ratio between punitive and compensatory damages, to a significant degree, will satisfy due process," *State Farm, 538 U.S. at 425*, and it has noted that

"an award of more than four times the amount of compensatory damages might be close to the line of constitutional impropriety." *Id.* (citing *Pac. Mut. Life Ins. Co. v. Haslip, 499 U.S. 1, 23-24, 111 S. Ct. 1032, 113 L. Ed. 2d 1 (1991)*); *see also Clark, 436 F.3d at 606.*

Second, the compensatory damage award itself is very large. The Supreme Court has made clear that "[w]hen compensatory damages are substantial, then a lesser ratio, perhaps only equal to compensatory damages, can reach the outermost limit of the due process guarantee." *State Farm, 538 U.S. at 425.* In *Bach*, this court concluded that a $400,000 compensatory damages award was "substantial" and thus, applying "the hypothetical scenario described in *State Farm*, where the plaintiff has received a substantial compensatory damages award, and a ratio of 1:1 or something near to it is an appropriate result," instructed the district court "to enter an order of remittitur reducing the punitive damages award to no more than $400,000." *486 F.3d at 156-57.* Also, in *Pollard v. E.I. DuPont de Nemours, Inc.*, this court affirmed a punitive damages award of $2.5 million that the district court added to a total compensatory damages award of $2.2 million, which included approximately $1.2 million in back and front pay, because the ratio (1:1 overall and 2:1 when back and front pay were excluded) was close to "the 1-to-1 ratio mentioned in [*State Farm*] for the largest [compensatory] awards." *412 F.3d 657, 666-68 (6th Cir. 2005).* In the instant case, the amount of compensatory damages that Westbound was awarded, $366,939, is large and approximately the same amount as that awarded in *Bach*. *See Bach, 486 F.3d at 156.*

Third, the compensatory damages award in this case included a punitive element. The "actual" harm that Westbound suffered is reflected in the amount of licensing fees that Westbound lost because of the infringement. In *State Farm*, the Supreme Court noted that a large punitive damages award is not justified where a compensatory damages award includes a punitive element that is duplicated in the punitive damages award. *538 U.S. at 426.* Under the federal Copyright Act, an infringer is liable for the copyright owner's actual damages and the profits of the infringer. *See 17 U.S.C. § 504.* This dual recovery of plaintiff's damages and defendant's profits serves two distinct purposes: damages compensate the copyright owner whereas profits "'are awarded to prevent the infringer from unfairly benefitting from a wrongful act.'" *Hamil Am., Inc. v. GFI, 193 F.3d 92, 103 (2d Cir. 1999)* (quoting H.R. Rep. No. 94-1476, at 161 (1976), *reprinted in 17 U.S.C.A. § 504* at 146 (West 1996)). The purpose of awarding a plaintiff the defendant's profits from copyright infringement, therefore, overlaps substantially with the goals of punitive damages awards. It is undisputed here that the jury, in awarding Westbound damages under New York common law, followed the same formula and awarded actual damages plus profits. Westbound's actual damages from the infringement were lost licensing fees of $43,478 (without interest) and $51,946 (with interest). Accordingly, the ratio of the punitive damages award and the non-punitive element of the compensatory damages award is very high.

Even if we were to accept Westbound's argument that the correct ratio is 3.5:1--which it calculates by including Bridgeport's share of compensatory

damages ($366,939), even though Bridgeport elected statutory damages, and interest ($276,763.93)--the ratio indicates that the award is excessive. If these additional amounts were included within the compensatory damages award, that award would be significantly larger and, as discussed above, a substantial compensatory damages award means that a lower ratio is needed to satisfy the requirements of due process. *See State Farm, 538 U.S. at 425.* In addition, the smaller ratio would not change the fact, also discussed above, that the compensatory damages award included a large punitive element.[13]

3. Civil Penalties Comparison

Finally, the amount of statutory damages available under the federal Copyright Act contributes to the conclusion that the punitive damages award in this case was unconstitutional. The Copyright Act provides that a plaintiff may elect statutory damages in lieu of actual damages and profits, and may ordinarily receive no more than $30,000 in statutory damages. *17 U.S.C. § 504(c)(1).* But if the plaintiff proves that the "infringement was committed willfully," the plaintiff may receive statutory damages of up to $150,000. *Id. § 504(c)(2).* Accordingly, the ratio of the punitive portion to the compensatory portion of statutory damages under

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[13]Because we conclude that the ratio when calculated according to the overall punitive damages award indicates that the award was excessive, we need not also address defendants' argument that the appropriate ratios should be calculated by comparing the amount of punitive damages assessed against each defendant measured against the profits for each defendant, which yield ratios of 5:1 for Bad Boy Entertainment, 73:1 for Bad Boy LLC, and 58:1 for UMG.

the Act is 4:1 (($150,000 - $30,000):$30,000). Of course, $150,000 is the *maximum* allowable, and thus would be the largest award that a victim of copyright infringement could receive irrespective of the reprehensibility of an infringer's conduct. Here, defendants' conduct, although willful, was not highly reprehensible. In addition, as discussed above, the size of the allowable ratio fluctuates with the size of the compensatory damages award, and thus the 4:1 ratio in the Act suggests that a smaller ratio for a larger damages award is appropriate.

4. Summary

Given the large compensatory damages award of $366,939, a substantial portion of which contained a punitive element, and the low level of reprehensibility of defendants' conduct, a ratio of closer to 1:1 or 2:1 is all that due process can tolerate in this case. Therefore, we remand to the district court for a remittitur of the punitive damages verdict (or a new trial). *See Bach, 149 F. App'x at 367.*

IV.

Defendants raise two additional issues on appeal that do not concern the propriety of the trial or damages. First, one of the defendants, UMG, argues that plaintiffs released it from liability in 2003. Second, defendants argue that an injunction that the district court imposed after the trial was improper. We reject UMG's argument with respect to the release issue and also affirm the district court's injunction and impoundment order.

A. Release of UMG (Issue 4)

Plaintiffs did not release UMG from liability in an April 2003 settlement agreement that plaintiffs entered into with EMI April Music, Inc. In that agreement plaintiffs released, among others, licensees and sublicensees of EMI from certain claims, including those claims brought in the present lawsuit:

> **Bridgeport**, on behalf of itself and its successors and assigns, **hereby releases and forever discharges EMI, its** songwriters, recording artists, producers, affiliated co-publishers, administered publishers, subpublishers, distributors, subdistributors, **licensees or sublicensees of EMI**, and their officers, directors, shareholders, partners, agents, contractors, attorneys, predecessors in interest, affiliates, subsidiaries, parent and sister companies, successors and assigns (the "Released Parties") **from any and all claims, lawsuits**, counterclaims, demands, charges, obligations, debts, losses, costs, liabilities, expenses, actions, and causes of actions past, present or future, known or unknown, of whatsoever nature, **which Bridgeport may have**, including but not limited to all claims arising out of the EMI Works,the Bridgeport Compositions and Sound Recordings, the Alleged Infringements, the Additional Claims, and the Lawsuits. All of the claims released by Bridgeport shall be hereinafter referred to as the

> "Released Claims." **For purposes of clarification, it is the intention of Bridgeport to release any and all parties that derive their rights from EMI ("Licensees") to the same extent as EMI is released herein. Licensees are being released only with respect to Released Claims where they are a licensee of EMI and not for claims where Licensees do not derive their rights from EMI.**

J.A. 493-94 (Settlement Agreement and Release § 4.A.) (emphasis added). However, the release specifically excluded Bad Boy: "The foregoing release, and the other provisions contained herein, specifically does not apply to Justin Combs Publishing, Bad Boy Records, or Bad Boy Entertainment." J.A. 495 (Settlement Agreement and Release § 4.D.). UMG argues that because it is a sublicensee of EMI and derived its rights from EMI, it is explicitly covered by the release agreement and, therefore, plaintiffs released their claims against UMG. Plaintiffs argue that (1) there is no evidence of a license between EMI and Bad Boy and that UMG was not properly a licensee of Bad Boy, and thus could not be a sublicensee of EMI, (2) UMG derived its rights from Bad Boy, not from EMI, and thus was not included within the release language, and (3) the release explicitly excluded Bad Boy, and because UMG derived its rights from Bad Boy, it too should be excluded.[14]

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[14]The parties agree that Tennessee law governs interpretation of the Settlement Agreement and Release.

As a preliminary matter, plaintiffs' argument that UMG waived this issue by failing to raise it "in any post-trial motions" is simply incorrect as a factual matter. UMG raised the issue three times: first, in a Second Motion for Summary Judgment, again, in a Rule 50 motion for judgment as a matter of law, and a final time, in a renewed Rule 50 motion after the close of all the evidence.[15] Therefore, UMG may raise the issue on appeal.

With respect to the merits, plaintiffs are correct that there is no evidence in the record of a license between EMI and Bad Boy. Defendants claim in their brief that EMI licensed "Ready to Die" to Arista on behalf of Arista and Bad Boy (presumably as joint venturers). So far as we can tell, there is no licensing agreement in the record. When asked at oral argument for evidence to substantiate this claim, counsel for defendants directed this court to a portion of defendants' cross-examination of Robert Sullivan, an attorney for EMI. *See* J.A. 2107-17. In that examination, Sullivan testifies only that, hypothetically, if Bad Boy were a licensee of EMI and if UMG were a licensee of Bad Boy, then UMG would be a sublicensee of EMI and would be released from liability. J.A. 2112. Because there is no

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[15] In a report and recommendation, adopted and approved by the district court, the magistrate judge denied UMG's motion for summary judgment because "a reasonable jury could easily find that there was no intent by the parties to the settlement agreement to release those entities deriving their rights directly from the Bad Boy entities." The district court also denied UMG's Rule 50 motion because it involved "a question of intent" that was "a classic jury question." The district court denied UMG's renewed Rule 50 motion at the close of evidence for the same reason.

evidence of a license between EMI and Bad Boy, there is no need for the court to address plaintiffs' other arguments.

B. Injunction (Issue 10)

The district court did not err by issuing an injunction and impoundment order. After the jury verdict in favor of plaintiffs, the district court, in response to plaintiffs' motion, issued an injunction "[p]ursuant to *17 U.S.C. § 503*, *Fed. R. Civ. P. 65*, *28 U.S.C. § 1651* and the inherent equitable powers of the Court." The court enjoined defendants from using the song "Ready to Die" or the album *Ready to Die*. The court also ordered defendants to impound all copies of the song and album. The court reasoned that plaintiffs are entitled to the exclusive use of "Singing in the Morning" and that plaintiffs would suffer irreparable harm without an injunction and impoundment order. The court also concluded that money damages would be insufficient to protect plaintiffs' rights in "Singing in the Morning." Finally, the court found that an injunction and impoundment order was in the public interest to vindicate plaintiffs' rights, and that the "balance of relative harms among the parties weighs in favor of injunctive relief and impoundment."[16]

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[16]Defendants filed a motion asking the district court to dissolve the injunction and impoundment order because the balance of hardships weighed in favor of defendants and the doctrines of laches and estoppel precluded injunctive relief, and asking the district court in the alternative to modify its order to limit the order to apply only to the infringing material. The district court stood by its previous order, but modified the injunction to clarify that the injunction and impoundment order was limited to use of the infringing material in the song and album, and thus did not prevent defendants from using the song or album

Defendants ask this court to reverse the district court's injunction and impoundment order because (1) the balancing of the relative harms to the parties does not justify the order, and (2) the doctrines of laches and estoppel preclude injunctive relief.

The federal Copyright Act authorizes injunctive relief and impoundment as remedies for infringement. *17 U.S.C. §§ 502, 503.* When a district court grants a permanent injunction, this court reviews its factual findings for clear error, legal conclusions de novo, and the scope of injunctive relief for an abuse of discretion. *Dana Corp. v. Celotex Asbestos Settlement Trust, 251 F.3d 1107, 1118 (6th Cir. 2001).* "It is uncontroversial that a 'showing of past infringement and a substantial likelihood of future infringement' justifies issuance of a permanent injunction." Melville B. Nimmer & David Nimmer, *Nimmer on Copyright § 14.06[B]* (2007) (hereinafter Nimmer). Not only is the issuance of a permanent injunction justified "[w]hen a copyright plaintiff has established a threat of continuing infringement, he is *entitled* to an injunction." *Walt Disney Co. v. Powell, 283 U.S. App. D.C. 111, 897 F.2d 565, 567 (D.C. Cir. 1990)* (emphasis in original); *see also Nimmer § 14.06[B]* ("Generally, it would appear to be an abuse of discretion to deny a permanent injunction where liability has been established and there is a threat of continuing infringement."). This is because "in copyright infringement actions, the denial of a request for injunctive relief could otherwise 'amount to a forced license to use the creative work of another.'" *Taylor*

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to the extent that they could remove the infringing material.

Corp. v. Four Seasons Greetings, LLC, 403 F.3d 958, 967-68 (8th Cir. 2005) (quoting *Silverstein v. Penguin Putnam, Inc., 368 F.3d 77, 84 (2d Cir. 2004)*); *cf. W.L. Gore & Assocs., Inc. v. Garlock, Inc., 842 F.2d 1275, 1281 (Fed. Cir. 1988)* (noting that in patent cases, "an injunction should issue once infringement has been established unless there is a sufficient reason for denying it").

Defendants do not challenge any of the district court's factual findings or legal conclusions, and defendants fail to demonstrate that the district court abused its discretion. Defendants argue that monetary relief for future infringement is sufficient because plaintiffs are in the business of licensing their copyrighted material and even offered to license to defendants the copyrighted material at issue in this case. Defendants also argue that they will suffer by not receiving profits for the infringing work and the public will be denied the opportunity to listen to *Ready to Die*. These are not concerns unique to this case and do not make the district court's adoption of the injunctive remedy, which is the standard remedy when past infringement has been proven and future infringement is likely, an abuse of discretion. In addition, plaintiffs have every incentive to negotiate a licensing agreement with defendants to permit them to distribute the infringing work, and there is no reason to believe that the parties will not bargain around the injunction.

The district court did not abuse its discretion by rejecting defendants' argument that the doctrine of laches precludes injunctive relief. "Ordinarily, an appellate panel reviews 'a district court's resolution

of a laches question for an abuse of discretion.'" *Chirco v. Crosswinds Cmtys., Inc., 474 F.3d 227, 231 (6th Cir. 2007)* (quoting *City of Wyandotte v. Consol. Rail Corp., 262 F.3d 581, 589 (6th Cir. 2001)).* "A party asserting laches must show: (1) lack of diligence by the party against whom the defense is asserted, and (2) prejudice to the party asserting it." *Id.* (quotations omitted). Defendants quote Learned Hand for the proposition that "it is inequitable for the owner of a copyright, with full notice of an intended infringement, to stand inactive while the proposed infringer spends large sums of money in its exploitation, and to intervene only when his speculation has proved a success." *Haas v. Leo Feist, Inc., 234 F. 105, 108 (S.D.N.Y. 1916); accord Danjaq LLC v. Sony Corp., 263 F.3d 942, 951 (9th Cir. 2001).* This court does not go so far, and cautions that although the doctrine of laches may be applied in copyright cases, it should be applied "rarely" and only in "unusual circumstances." *Chirco, 474 F.3d at 233-36* (affirming district court's application of laches to plaintiffs' two-and-one-half-year delay in filing suit, where plaintiffs knew of defendants' infringement of construction plans before construction began, "ma[de] any effort to procure the destruction of buildings already occupied, sold, or substantially constructed unduly prejudicial to the defendants").

This is not the rare and unusual case in which a district court abused its discretion by not holding that laches applies. Defendants note that plaintiffs knew about the infringement in 1998, but did not pursue their claims. The parties agreed that the complaint would be deemed as having been filed on May 4, 2001. Pursuant to the three-year statute of

limitations, defendants were only liable for acts of infringement that occurred on or after May 4, 1998. In effect, defendants are asking this court to hold that the doctrines of laches and estoppel shortened the limitations period. But unlike *Chirco* and *Haas*, this is not a case where plaintiffs sat back and watched while defendants invested large sums into a project, only to sue when it appeared that the project would be successful. As defendants acknowledge, "The album *Ready to Die* was first sold in 1994 and became an instant classic, well known throughout the world." Defendants' Br. at 65. Defendants' investment in the album had already been made and defendants had already realized the success of the album by the time plaintiffs discovered the infringement in 1998. Thus, this is not a case where defendants acted improperly by waiting to file suit, and the district court, therefore, did not abuse its discretion.

Similarly, the district court did not err by rejecting defendants' estoppel defense. The manner in which defendants are using the term "estoppel" is unclear. Defendants appear to equate estoppel with laches because they lump laches and estoppel together and repeatedly refer to the "inactivity" of plaintiffs. If that is the case, then their argument is answered by the discussion above with respect to laches. Alternatively, if defendants mean traditional equitable estoppel, then their argument also fails. Estoppel requires, among other things, that "the party to be estopped must have used conduct or language amounting to a representation of material fact" and "the party asserting estoppel must have detrimentally and justifiably relied on the representation." *Thomas v. Miller, 489 F.3d 293, 302*

(6th Cir. 2007) (quotations omitted). Defendants appear to base their claim on the fact that, while the lawsuit was pending, they re-released *Ready to Die* in 2004 and plaintiffs failed to object. Defendants argue that they reasonably believed that they would be able to compensate plaintiffs for the continuing infringement if plaintiffs won the lawsuit. However, defendants do not refer to any actions plaintiffs took or assurances that plaintiffs made that would have justified a belief that plaintiffs would not object to the re-release. Furthermore, it was unreasonable for defendants to rely on plaintiffs' failure to object immediately to the re-release when the parties were already in the midst of litigation concerning the original album.

V.

For the foregoing reasons, we AFFIRM in part and REVERSE in part. We affirm the district court's order denying defendants' Motion for Mistrial or to Modify Verdict with respect to defendants' arguments that (1) the verdict was the result of the passion and prejudice of the jury and not supported by the evidence; (2) the district court erred by excluding evidence of willfulness; (3) the district court erred by bifurcating the trial; and (4) the jury award did not apportion defendants' profits from infringing between the infringing and non-infringing material. We also affirm the district court's injunction and impoundment order and the district court's order denying defendants' summary judgment on the issue of whether plaintiffs released UMG from liability. We reverse the district court's order denying defendants' Motion for Mistrial or to Modify Verdict with respect to defendants'

arguments that (1) the verdict improperly included compound and prejudgment interest; (2) the punitive damages award was unconstitutional; and (3) the jury chose an improper date from which to award interest. On remand, the district court should (1) offer plaintiffs a remittitur on compensatory damages to account for the inclusion of compounded, prejudgment interest; (2) offer plaintiffs a remittitur on punitive damages; and (3) recalculate the date from which interest may be awarded.

APPENDIX B

No. 06-6294

UNITED STATES COURT OF
APPEALS FOR THE
SIXTH CIRCUIT

FILED
Feb 19 2008
Leonard Green, Clerk

BRIDGEPORT MUSIC, INC.; WESTBOUND RECORDS, INC., Plaintiffs-Appellees,	)	
v.	)	ORDER
JUSTIN COMBS PUBLISHING and BAD BOY ENTERTAINMENT, individually and doing business as Bad Boy Records; UNIVERSAL RECORDS, a division of UMG Recordings, Inc.; UMG RECORDINGS, INC.; BAD BOY LLC, Defendants-Appellants.	)	

BEFORE: MARTIN AND ROGERS, Circuit Judges; and HOOD, District Judge.

The court having received a petition for rehearing en banc, and the petition having been circulated not only to the original panel members but also to all other active judges of this court, and no judge of this court having requested a vote on the suggestion for rehearing en banc, the petition for rehearing has been referred to the original panel.

The panel has further reviewed the petition for rehearing and concludes that the issues raised in the petition were fully considered upon the original submission and decision of the case. Accordingly, the petition is denied.

ENTERED BY ORDER OF THE COURT

s/Leonard Green, Clerk

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[1] Hon. Denise Page Hood, United States District Judge for the Eastern District of Michigan, sitting by designation.

APPENDIX C

UNITED STATES DISTRICT COURT
MIDDLE DISTRICT OF TENNESSEE
NASHVILLE DIVISION

BRIDGEPORT MUSIC, INC., et al.	) NO. 3:05-0155) Judge Campbell
v.	)
JUSTIN COMBS PUB., et al.	)

ORDER

Pending before the Court is Defendants' Motion for Mistrial or Modification of Verdict (Docket No. 426) and Plaintiff's Memorandum of Law in Opposition (Docket No. 443). Also pending before the Court is Plaintiffs' Memorandum of Law Regarding Issues for Determination for the Court for Purposes of Entry of Judgment (Docket No. 432) and Defendants' Response (Docket No. 438).

For the reasons stated regarding the pertinent rulings at trial, and herein, Defendants' Motion (Docket No. 426) is DENIED, with two exceptions. The Court RESERVES ruling on the issue of whether damages should be offset by the value of Plaintiffs' settlement with the Estate of Christopher Wallace, pending the filing of the Settlement Agreement pursuant to a prior Order of the Court (Docket No. 460). The Motion is GRANTED on the

issue of separate damages awarded to Bridgeport and Westbound on the terms stated herein.

The Defendants' Motion raises the following issues, which are resolved as indicated below:

1. The Court erroneously precluded Defendants from introducing evidence to demonstrate that, contrary to Plaintiffs' assertions, Defendants did not act intentionally, recklessly, or with indifference, which proffered evidence was relevant to the jury's decision whether there was a basis for punitive damages.

The Motion is DENIED for the reasons stated at trial and Fed. R. Evid. 403 and 408. The Court properly excluded evidence of certain post-litigation settlement matters during the liability phase of the trial. Defendants were permitted to introduce such evidence during the punitive damages phase of the trial, and the jury nevertheless awarded punitive damages. Defendants were also permitted to introduce evidence regarding the Peterer pre-litigation letters at the liability phase of the trial. The post-trial statements of a juror to the media are inadmissible pursuant to Fed. R. Evid. 606(b) and cannot be considered by the Court, and in any event do not warrant a different ruling by the Court.

2. The Court erroneously bifurcated the trial after Plaintiffs rested and attempted to prove that Defendants' actions provided a basis for recovery of punitive damages, denying Defendants the ability to demonstrate there was no basis for punitive damages in the liability phase of the trial.

The Motion is DENIED for the reasons stated at trial. The Court properly bifurcated the trial when Defendants sought to introduce evidence of post-

litigation settlement discussions. Fed. R. Civ. P. 42(b). Bifurcation of the trial between liability and punitive damages benefited the Defendants. See, e.g., Hodges v. S.C. Toof & Co., 833 S.W. 2d 896 (Tenn. 1992). Also, bifurcation allowed Defendants to introduce evidence that otherwise was inadmissible.

3. The Court erroneously permitted Plaintiffs to present to the jury deposition testimony out of the order in which the testimony was given and in violation of the rule of completeness, misleading the jury and causing undue prejudice to Defendants.

The Motion is DENIED for the reasons stated at the trial. Fed. R. Civ. P. 32(a)(2) and Fed. R. Evid. 106, 403 and 611(a). All parties were permitted to introduce admissible depositions and such evidence was not unduly duplicative, misleading to the jury or prejudicial to Defendants.

4. The separate compensatory damages awarded to Plaintiffs Bridgeport Music, Inc. ("Bridgeport") and Westbound Records, Inc. ("Westbound") should have been awarded only once.

This Motion is GRANTED on the terms stated below. Plaintiffs acknowledge that each Plaintiff is not entitled to $733,878 in compensatory damages and represented to the jury that "Westbound and Bridgeport cannot collect double ... and the Court will make sure that there is no double recovery." (Tr.V. IX p. 1534). Bridgeport's election of statutory damages under the Federal Copyright Act does not change the result since that is a separate issue. Speculation that the damages award may have included interest likewise does not change the result. The evidence at trial supports the award of compensatory damages in the amount of $733,878.

The jury is not required to accept the testimony of either parties' experts and is entitled to exercise its own judgment about the amount of damages based on the facts and law.

The judgment to be entered shall reflect that the damages of $733,878 against Defendants are shared, and shared alike, by Plaintiffs Bridgeport and Westbound. Bridgeport shall have judgment for $150,000 in statutory damages under the Federal Copyright Act based on its election of damages. Westbound shall have judgment for $366,939 (50% of $733,878) in damages under New York law.

5. As a matter of law, the compensatory damages should be apportioned to award Plaintiffs for only those profits attributable to the infringement.

This Motion is DENIED because this issue was properly considered and resolved by the jury in accordance with the jury charge which accurately stated the law. The jury was within its province to not accept the Defendants' view of the facts regarding profits.

6. Defendants' revenues should have been reduced by their costs.

This Motion is DENIED because this issue was properly considered and resolved by the jury in accordance with the jury charge which accurately stated the law. The jury was within its province to not accept the Defendants' view of the facts regarding costs.

7. The individual Defendants should not be responsible for the profits of the other Defendants.

This Motion is DENIED because this issue was properly considered and resolved by the jury in accordance with the jury charge which accurately

stated the law. The jury was within its province to not accept the Defendants' view of the facts regarding profits.

8. The punitive damages awards were grossly excessive in violation of Defendants' due process rights.

The Motion is DENIED. The punitive damages were appropriate, reasonable, not duplicative, and not excessive given the facts presented at trial. The punitive damages do not violate the Defendants' due process rights and were not the result of passion or prejudice.

9. Defendants' damages should be offset by the value of Plaintiffs' settlement with the Estate of Christopher Wallace.

This issue is RESERVED as indicated above.

10. Pursuant to New York statutory law, pre-judgment interest should be awarded on Westbound's claims from a single reasonable intermediate date – here, April 1, 2002 – at a rate of nine percent per annum.

The Motion is DENIED because this issue was properly considered and resolved by the jury in accordance with the jury charge which accurately stated the law. The jury reasonably selected May 4, 1998 as the date from which prejudgment interest may be awarded.

Plaintiffs' Memorandum of Law Regarding Issues for Determination for the Court for Purposes of Entry of Judgment (Docket No. 432) and Defendants' Response (Docket No. 438) raise the following additional issues which are resolved as indicated below:

11. Bridgeport is entitled to recover prejudgment interest on its award of statutory damages under the Federal Copyright Act.

It is within the discretion of the Court to award prejudgment interest on Bridgeport's award of statutory damages under the Federal Copyright Act. See Rodgers v. U.S., 332 U.S. 371, 68 S.Ct. 5, 92 L. Ed. 3 (1947). See also Broadcast Music, Inc. v. R Bar of Manhattan, Inc., 919 F. Supp. 656, 661, 662 (S.D.N.Y. 1996) (holding prejudgment interest was appropriate on award of statutory damages under the Copyright Act); Broadcast Music, Inc. v. Nortel Grill, Inc., 1991 WL 172079 at *2 (prejudgment interest on statutory damages is inappropriate) (W.D.N.Y. Aug. 27, 1991). The Court finds that the jury's award of $150,000.00 in statutory damages for willful infringement adequately compensates Bridgeport for Defendants' infringement of its copyright under the totality of the circumstances. Accordingly, the Court finds that an award of prejudgment interest on Bridgeport's award of statutory damages under the Federal Copyright Act is inappropriate in this case.

12. Westbound is entitled to recover compound prejudgment interest on its award of compensatory damages under New York law.

The Court finds that Westbound is entitled to an award of prejudgment interest as a matter of right on its award of compensatory damages under New York common law from a single reasonable intermediate date as determined by the jury at the rate of nine per centum (9%) per annum on a simple interest basis. N.Y. (Interest to Verdict) Law CPLR §5001 and N.Y. (Rate of Interest) Law CPLR §5004 (McKinney's 2006). It is not within the discretion of

the Court to determine whether an award of prejudgment interest is appropriate on Westbound's recovery under New York common law. In the present action, the jury determined that the date from which prejudgment interest may be awarded on Westbound's claim under New York common law is May 4, 1998. Accordingly, Westbound is entitled to prejudgment interest from May 4, 1998 at the rate of nine per centum per annum on a simple interest basis.

13. The doctrines of estoppel, waiver, laches and unclean hands do not bar Plaintiffs' claims against Defendants.

In order to establish estoppel as a defense to a copyright infringement allegation, a copyright defendant must prove: 1) the plaintiff must know the facts of the defendant's infringing conduct; 2) the plaintiff must intend that its conduct shall be acted on or must so act that the defendant has a right to believe that it is so intended; 3) the defendant must be ignorant of the true facts; and the defendant must rely on the plaintiff's conduct to its injury. Furthermore, it is accepted that estoppel may be accomplished by a plaintiff's silence and inaction. See, Carson v. Dynegy, Inc., 344 F. 3d 446, 553 (5th Cir. 2003) (citing 4 Melville B. Nimmer & David Nimmer, N.immer on Copyright §13.07 (2002)). See also, Quinn v. City of Detroit, 23 F. Supp. 2d 741, 753 (E.D. Mich. 1998); Lottie Joplin Thomas Trust v. Crown Publishers, 456 F. Supp. 531, 535 (S.D.N.Y. 1977), *aff'd*, 952 F. 2d 651 (2d Cir. 1978).

Waiver is the voluntary and intentional relinquishment of a known right with the knowledge of its existence and the intent to relinquish it. A & M Records, Inc. v. Napster, Inc., 239 F. 3d 1004, 1026

(9th Cir. 2001); M & A Associates, Inc. v. VCX, Inc., 657 F. Supp. 454, 463 (E.D. MI 1987). "In copyright, waiver or abandonment of copyright 'occurs only if there is an intent by the copyright proprietor to surrender rights in his work.'" A & M, 239 F. 3d at 1026 (quoting 4 Melville B. Nimmer & David Nimmer, N.immer on Copyright §13.06 (2000).

In order to establish the equitable defense of laches, Defendants must prove unreasonable delay by Plaintiffs and prejudice to Defendants from such unreasonable delay. See, Danjaq LLC v. Sony Corporation, 263 F. 3d 942, 951 (9th Cir. 2001); Haas v. Leo Feist, Inc., 234 F. 105 108 (S.D.N.Y. 1916).

The doctrine of unclean hands denies equitable relief to one who has engaged in fraud, deceit, or some other type of bad faith conduct. Performance Unlimited v. Questar Publishers, 52 F.3d 1373, 1383 (6th Cir. 1995).

In reviewing the evidence at trial, the Court finds that Defendants have not carried their burden of establishing their equitable defenses. Based upon the totality of the facts, the equitable doctrines of estoppel, waiver, laches and unclean hands do not bar Plaintiff's claims against Defendants.

Finally, any errors at trial were harmless. The parties got a fair trial and the jury reached a verdict that is consistent with the facts and law. The amount of damages awarded is reasonable, supported by the evidence, and not based on passion or prejudice.

The parties agree that for purposes of entry of judgment that the correct name of one of the Defendants is "Janice Combs Publishing, Inc. doing business as Justin Combs Publishing," rather than "Justin Combs Publishing."

Within seven (7) calendar days after the Court enters an order on the issues presented by the Settlement Agreement between Plaintiffs and the Estate of Christopher Wallace, the parties shall file a notice of their mathematical calculations of the total damages to be included in the final judgment consistent with this Order.

IT IS SO ORDERED.

Todd J. Campbell
TODD J. CAMPBELL
UNITED STATES
DISTRICT JUDGE
FILED 09/08/2006

APPENDIX D

UNITED STATES DISTRICT COURT
MIDDLE DISTRICT OF TENNESSEE
NASHVILLE DIVISION

BRIDGEPORT MUSIC, INC.; WESTBOUND RECORDS, INC., Plaintiffs-Appellees,	)	
v.	)	
	)	NO. 3:05-0155
JUSTIN COMBS PUBLISHING and BAD BOY ENTERTAINMENT, individually and doing business as Bad Boy Records; UNIVERSAL RECORDS, a division of UMG Recordings, Inc.; UMG RECORDINGS, INC.; BAD BOY LLC, Defendants-Appellants.	)	JUDGE CAMPBELL

ORDER

Based on the verdict of the jury, and Orders of

the Court, judgment is hereby entered as follows:

Plaintiff Bridgeport Music, Inc. is awarded $150,000 in statutory damages against Defendants Janice Combs Publishing, Inc. d/b/a Justin Combs Publishing, Bad Boy Entertainment, Inc., individually and doing business as Bad Boy Records, Bad Boy, LLC, and UMG Recordings, Inc. and its division Universal Records.

Plaintiff Westbound Records, Inc. is awarded $366, 939.00 in compensatory damages, and $276,763.93 in pre-judgment simple interest from May 4, 1993 at the rate of nine percent (9%) per annum, against Defendants Bad Boy Entertainment, Inc., individually and doing business as Bad Boy Records, Bad Boy, LLC, and UMG Recordings, Inc. and its division Universal Records.

Plaintiff Westbound Records, Inc. is awarded $1,500,000.00 in punitive damages against Bad Boy Entertainment, Inc. individually and doing business as Bad Boy Records.

Plaintiff Westbound Records, Inc. is awarded $1,000,000.00 in punitive damages against Bad Boy, LLC.

Plaintiff Westbound Records, Inc. is awarded $1,000,000.00 in punitive damages against UMG Recordings, Inc. and its division Universal Records.

This Order shall constitute the judgment in this case pursuant to Fed. R. Civ. P. 58.

IT IS SO ORDERED.

s/ Todd J. Campbell
Todd J. Campbell
United States District Judge
FILED 09/21/06

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(2)

No. 07-1438

FILED
JUL 8 - 2008
OFFICE OF THE CLERK
SUPREME COURT, U.S.

In The
Supreme Court of the United States

WESTBOUND RECORDS, INC.,
Petitioner,

v.

JUSTIN COMBS PUBLISHING, et al.,
Respondents.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

BRIEF IN OPPOSITION

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July 8, 2008

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QUESTIONS PRESENTED

I. Whether a presumption of validity for punitive-damages awards within a single-digit ratio of compensatory awards, with exceptions only if the verdict is based on passion and prejudice or no malice is found, is inappropriate because such presumption fails to consider the guideposts established by this Court in *BMW of North America, Inc. v. Gore*, 517 U.S. 559 (1996), such as the level of reprehensibility, the size of the compensatory-damages award and whether the compensatory-damages award includes a punitive component.

II. Whether Petitioner failed to show a conflict among appellate courts' application of the *Gore* guideposts.

III. Whether the Sixth Circuit correctly applied each *Gore* guidepost in reversing the District Court's award of punitive damages and remanding for a remittitur of the punitive-damages award to a punitive/compensatory ratio of 1:1 or 2:1.

IV. Whether the Sixth Circuit correctly applied a *de novo* standard of review in considering the *Gore* guideposts, assuming the jury accepted Petitioner's factual view of the case and applying the guideposts to such evidence.

V. Whether repeated conduct for purposes of applying the "reprehensibility" guidepost is limited to conduct against third parties, because, as this Court held in *Philip Morris USA v. Williams*, 549

U.S. 346 (2007), such conduct also may pose a substantial risk to the general public.

RULE 29.6 STATEMENT

Respondent Bad Boy Entertainment, Inc. has no parent company, and there are no publicly held companies that own any stock of Bad Boy Entertainment, Inc.

Respondent Bad Boy Records LLC has no parent company, and there are no publicly held companies that own any stock of Bad Boy Records LLC.

Respondent Janice Combs Publishing, Inc. d/b/a Justin Combs Publishing has no parent company, and there are no publicly held companies that own any stock of Janice Combs Publishing, Inc. d/b/a Justin Combs Publishing.

UMG Recordings, Inc. is a wholly owned subsidiary of Vivendi Universal, a publicly traded company.

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STATEMENT OF THE CASE

This case is not the appropriate vehicle to revisit punitive-damages jurisprudence. No circuit split exists. Instead, Petitioner, Westbound Records, Inc. ("Westbound"), is simply dissatisfied with the Sixth Circuit's decision reducing its unconstitutionally excessive punitive-damages award and seeks this Court's review of the Sixth Circuit's fact-specific decision.

Congress has determined that the maximum statutory damages for willful copyright infringement are $150,000. Yet, because of a narrow exception allowing punitive damages for common-law copyright infringement of sound recordings created before 1972, the jury awarded Westbound punitive damages of $3.5 million for a single infringed work.

The Sixth Circuit, after careful consideration of this Court's guideposts for review of punitive-damages awards set forth in *BMW of North America, Inc. v. Gore*, 517 U.S. 559 (1996), found the award unconstitutionally excessive and remanded to the District Court for a remittitur of the punitive-damages award to a more appropriate ratio of punitive to compensatory damages of 1:1 or 2:1.

The Sixth Circuit concluded that, at best, only a portion of one of the three *Gore* guideposts weighed in favor of a punitive-damages award in this case: a showing, albeit not strong, of willful copyright infringement. The Sixth Circuit determined that the remaining guideposts — including those factors this Court emphasized in reversing a punitive-damages

award in *State Farm Mutual Automobile Ins. Co. v. Campbell*, 538 U.S. 408 (2003) — demonstrated that a $3.5 million punitive-damages award in this copyright infringement case was unconstitutionally excessive:

1. The compensatory-damages award is substantial and already includes a punitive component in allowing for the recovery of lost profits, which constitutes the majority of the award;

2. The harm inflicted was economic and not physical;

3. No evidence exists that Westbound is a financially vulnerable victim; and

4. No evidence of repeated misconduct exists.

Rarely citing to — and greatly exaggerating — the record, Westbound now complains that a recovery of punitive damages to compensatory damages in the range of 1:1 or 2:1, although more than twice the amount Congress has determined appropriate to punish willful copyright infringement, is insufficient. Westbound urges the Court to establish a presumption of validity for punitive-damages awards within a single-digit ratio of compensatory awards, with exceptions only if the verdict is based on passion and prejudice or where no malice is found.

Westbound has manufactured a split among appellate courts in how they apply the *Gore* guideposts, and, in particular, the second guidepost calling for consideration of the punitive-to-

compensatory ratio. In one camp, according to Westbound, courts "apparently" presume the validity of single-digit-ratio awards; in the other, courts reverse single-digit-ratio awards based on *de novo* review.

These cases did not apply the *Gore* guideposts differently. In each case, the court did not simply consider the punitive-compensatory ratio, but examined all three *Gore* guideposts in the context of the case-specific facts. The trend of the cases comports with this Court's suggestion in *Exxon Shipping Co. v. Baker*, 2008 U.S. Lexis 5263, **74-80 (2008), and *Campbell* that punitive-damages awards should be — and typically are — at the lower end of the single-digit spectrum when the level of reprehensibility is low or the other guideposts weigh against the plaintiff.

Likewise, here the Sixth Circuit did not "get bogged down" in examining the punitive-to-compensatory ratio, as Westbound contends, but, instead, thoroughly examined each guidepost in reaching its conclusion that the ratio was too high and reduced it to the range endorsed by this Court.

Indeed, a presumption of validity of a single-digit-ratio has never even been considered by this Court, and for good reason. As this Court has noted in its most recent opinions on punitive damages, high single-digit-ratio awards represent the upper limit of constitutional propriety only in the most exceptional cases; a 1:1 ratio is more appropriate in cases where, as here, the case for punitive damages is not strong. *See Baker*, 2008 U.S. Lexis 5263, **74-80; *Campbell*, 538 U.S. at 425.

The Sixth Circuit relied on precisely such considerations in determining that a 2:1 or 1:1 ratio is more appropriate here than the 9.5:1 ratio the jury awarded. Thus, this case, where Westbound has already been compensated with a substantial sum that includes a punitive component, demonstrates precisely why Westbound's "presumption of validity" proposal would not appropriately guard against punitive-damages awards that violate due process. Westbound's proposal fails to consider not only the facts of each individual case but also many of the indicia identified in *Gore* and *Campbell* that an award is unconstitutionally excessive.

Westbound also erroneously suggests that the Sixth Circuit applied a *de novo* standard of review to factual findings of the jury when such review should have been for clear error. The Sixth Circuit assumed the jury accepted Westbound's factual view of the case and applied the guideposts to such evidence.

Finally, Westbound suggests the appellate courts are split on whether repeated conduct for purposes of applying the "reprehensibility" guidepost includes conduct against the plaintiff or is limited to conduct against third parties. This Court clarified in *Philip Morris USA v. Williams*, 549 U.S. 346 (2007), that harm to others is the test because such conduct also may pose a substantial risk to the general public. In any event, Westbound has failed to provide any evidence of repeated misconduct against nonparties or itself, alleging only a single act of infringement.

This case was properly decided under the established precedent of this Court. Therefore, Westbound's Petition should be denied.

I. The Underlying Allegations

A. "Ready to Die" Is Produced and Released.[1]

Bridgeport Music, Inc. ("Bridgeport") owns the musical composition "Singing in the Morning," and its sister company Westbound owns the 1972 sound recording embodying that musical composition recorded by the Ohio Players. (R. 424, Trial Transcript Volume ("Tr.") IX, 1580, 1586.)

In 1994, Defendant Bad Boy Entertainment, Inc., as a joint-venturer with non-party Arista Records, Inc., released the album *Ready to Die*, recorded by the late rap artist Christopher Wallace, professionally known as "Notorious B.I.G." (R. 419, Tr. VII, 1037, 1166, 1169.) The album includes the sound recording "Ready to Die." (R. 370, Tr. Ex. 77.)

The recording "Ready to Die" was produced by non-party Osten Harvey, Jr.,[2] who admitted at his

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[1] Defendants reject, in large part, Westbound's recitation of the facts, which includes few, if any, citations to the record and generally repeats many of the inflammatory, exaggerated and unsupported allegations Westbound made at trial. To the extent relevant to the arguments herein, Defendants explain the basis for their disagreement within the text of their argument.

[2] Defendants filed a Third-Party Complaint against Harvey, but it was dismissed without prejudice for lack of personal

deposition that he included a sample of a small portion of the sound recording "Singing in the Morning" in "Ready to Die." He said he chose the work because it sounded like another sample he had originally used in "Ready to Die," which he could not license. (R. 378, Tr. II, 281; R. 399, Video Depo. of Osten Harvey Jr., pp. 18-20, 126-32.)

Defendants had no role in or knowledge of the placement or selection of this sample and did not have any control over Harvey's actions. (R. 419, Tr. VII, 1037-40, 1058-60, 1133, 1170, 1177; R. 370, 7/19/94 Wallace Correspondence, Tr. Ex. 507; R. 378, Tr. II, 281; R. 399, Video Depo. of Osten Harvey Jr., pp. 126-32.) Indeed, Defendants UMG Recordings, Inc. and Bad Boy Records LLC had no involvement with the *Ready to Die* album until more than a decade later. (R. 419, Tr. VII, 1206, 1210-15, 1228, 1271.)

Bad Boy Entertainment, Inc. and its principal, Sean Combs, who was the named "executive producer" of the album *Ready to Die* but who had no role in the actual production of the song, are well known for sampling lawfully other artists' music in creating their own music. (R. 419, Tr. VII, 1043, 1050-53, 1175-77.) For years, Combs has requested and received licenses to use hundreds of samples and is careful to do so because of his sampling reputation. (R. 419, Tr. VII, 1043; *see also id.* at 1050-53.) The album *Ready to Die* includes numerous authorized and credited samples.

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jurisdiction. (R. 44, Amended Third Party Complaint; R. 77, Amended Report and Recommendation; R. 104, Order.)

(R. 370, Tr. Exs. 557-558 (album liner notes); *see also* R. 419, Tr. VII, 1060-61.)

B. Bridgeport and Westbound Demand 25% of "Ready to Die."

In 1998, Bridgeport and Westbound sent letters — never addressed properly to reach Defendants — demanding 25% ownership of the copyright in "Ready to Die" in exchange for use of the "Singing in the Morning" sample. Bridgeport and Westbound never requested that Defendants cease exploiting the *Ready to Die* album, only that they agree to a fee for the continued use of the sample. (R. 370, Tr. Exs. 19A, 20B; R. 419, Tr. VII, 1046-47.) Defendants never received such a letter directly and continued to exploit the work. (R. 419, Tr. VII, 1045-46, 1176-77.)

C. Defendants Re-Release *Ready to Die* While Engaged with Bridgeport and Westbound in Settlement Discussions.

While Defendants were not allowed to introduce the evidence during the trial's liability phase, in an offer of proof, Defendants demonstrated that the parties had engaged in continuous settlement discussions during the pendency of the action, Defendants making numerous settlement offers. (R. 420, Tr. VIII-A, 1360.)

During these settlement discussions, in 2004, Bad Boy Records released re-mastered versions of *Ready to Die* through a distribution agreement with UMG Recordings, Inc. Neither Bridgeport nor Westbound ever sought to enjoin this re-release during the pendency of the trial, instead simply relying on their

request for a permanent injunction to be decided at the trial.

In 2005, after the UMG agreement terminated, Bad Boy Records entered into a joint venture with Warner Music Group, creating the entity Bad Boy Records LLC, which continued to distribute the re-mastered *Ready to Die* albums. (R. 419, Tr. VII, 1206, 1210-15.)

II. Procedural Background

A. Proceedings in the District Court

Bridgeport and Westbound filed a Complaint in the United States District Court for the Middle District of Tennessee on February 25, 2005,[3] alleging copyright infringement under the Copyright Act, 17 U.S.C. § 101, *et seq.* (R. 1, Complaint.)

The Complaint was later amended to plead on behalf of Westbound, in the alternative, common-law copyright infringement, violation of the record-piracy laws of Tennessee, unfair competition, misappropriation and conversion. (R. 30, Third Amended Complaint.)

On February 15, 2006, the District Court dismissed Westbound's claims for federal copyright infringement, violation of Tennessee's record-piracy laws and

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[3] Certain of the claims in this lawsuit are consolidated from a lawsuit filed May 4, 2001. (R. 40, Stipulation and Agreed Order.)

conversion.[4] (R. 169, Report and Recommendation; R. 199, Order.)

This case was tried to a jury. (R. 377-79, 414-15, 418-20, 424, 477, Tr. I-IX.) In their opening statement and case-in-chief, Plaintiffs attempted to prove entitlement to punitive damages by arguing that Defendants maliciously ignored the litigation and Plaintiffs' settlement efforts, forcing Plaintiffs to trial. (R. 377, Tr. I, 31, 51, 53, 59, 60, 89.)

During Defendants' case-in-chief, however, over Defendants' objections (R. 419, Tr. VII, 1022-23; R. 420, Tr. VIII-A, 1295-97), the District Court, *sua sponte*, bifurcated the trial and precluded Defendants from countering Plaintiffs' argument and evidence introduced during the liability phase that Defendants made numerous attempts to settle with Plaintiffs. (R. 419, Tr. VII, 1175.)

On March 20, 2006, the jury found Defendants liable on all counts and awarded compensatory damages in the amount of $733,878 for each Plaintiff (R. 366, 367, Jury Verdicts), the precise amount Plaintiffs had requested.

The jury also found that Defendants' infringement was "willful" and, thus, Bridgeport was entitled to the

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[4] Westbound's sole interest here is ownership of the sound recording "Singing in the Morning." The District Court found that the sound recording was fixed in a tangible medium before February 15, 1972, and, therefore, is not entitled to federal copyright protection. (*Id.*)

maximum enhanced statutory damages under federal copyright law, $150,000, as an alternative to actual damages. (R. 366, Jury Verdict.)

The jury also found that Westbound was entitled to punitive damages. (*Id.*) The punitive-damages phase was then tried to the jury. (R. 424, Tr. IX, 1630-83.) The jury awarded punitive damages of $1,500,000 against Bad Boy Entertainment, Inc., $1,000,000 against Bad Boy Records LLC and $1,000,000 against UMG Recordings, Inc. (R. 368, Jury Verdict on Punitive Damages.)

Defendants moved for a mistrial or modification of the verdict. (R. 426-27, Motion and Memo for Mistrial or Modification of Verdict; supplemented at R. 439, Supplemental Memo in Support of Motion for Mistrial or Modification of Verdict.) The District Court denied Defendants' motion except to reduce Plaintiffs' compensatory damages by 50% each, because Bridgeport possesses an interest only in the musical composition and Westbound possesses an interest only in the sound recording.[5] (R. 461, Order.)

On September 21, 2006, the District Court entered judgment on the jury verdict and awarded damages as follows:

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[5] Thus, Westbound's contention that the Court reduced the award "due solely to the presence of another plaintiff in the action" (Petition at 2) is inaccurate.

Bridgeport:

Statutory damages	**$150,000.00**

Westbound:

Compensatory damages	$366,939.00
Prejudgment simple interest from May 4, 1998, to present at 9% per annum	$276,763.93
Punitive damages against Bad Boy Entertainment, Inc.	$1,500,000.00
Punitive damages against Bad Boy Records LLC	$1,000,000.00
Punitive damages against UMG Recordings, Inc.	$1,000,000.00
TOTAL	**$4,143,702.93**

(R. 465, Order.)

Defendants appealed the District Court's decision to the United States Court of Appeals for the Sixth Circuit. (R. 467, Notice of Appeal.) Among the issues appealed was whether the jury's $3.5 million punitive-damages award was unconstitutionally excessive.

B. The Sixth Circuit Opinion

On October 17, 2007, the Sixth Circuit affirmed in part and reversed in part the District Court's decision. Significant to Westbound's Petition, the District Court reversed the District Court's punitive-damages award of $3.5 million. The Sixth Circuit held that the

punitive-damages award violates due process when measured against Defendants' conduct, the harm that Plaintiffs suffered and the comparable enhanced statutory damages that federal law permits. (Petition, Apx. 26a-35a.)

The Sixth Circuit conducted a *de novo* review of the punitive-damages award and concluded that the award was excessive in light of this Court's three guideposts under *Campbell*, 538 U.S. at 418, and *Gore*, 517 U.S. at 575: 1) the reprehensibility of Defendants' conduct, 2) the disparity between Westbound's harm and the punitive award, and 3) a comparison of the award and civil penalties in comparable cases. (Petition, Apx. 26a.)

The Sixth Circuit found that Defendants' conduct did not warrant the $3.5 million punitive-damages award. The court found present only one of the four reprehensibility factors: that the harm was the result of intentional malice or deceit. The court also found that, although the showing was not strong, the evidence that Defendants ignored pre-litigation letters and re-released the album knowing it contained an unauthorized sample supported the jury's finding that Defendants acted willfully and that their conduct was "somewhat reprehensible." (Petition, Apx. 26a-27a.)

The Sixth Circuit found that none of the other reprehensibility factors were present: First, the harm was purely economic and did not threaten the health or safety of others; second, Westbound is not a financially vulnerable victim but instead a company "that has proven its ability to protect its rights"; and third, no evidence was admitted or presented that

Defendants' infringement was one of a repeated number of actions. (Petition, Apx. 28a-29a.)

Because only one of the reprehensibility factors was present, the Sixth Circuit concluded, based on a comparison to civil awards in comparable cases, that a ratio in the range of 1:1 to 2:1 is all that due process allows in this case. (Petition, Apx. 30a-31a.) In so concluding, the court determined that the ratio of punitive damages to compensatory damages the jury awarded — 9.5:1 — was large, that the compensatory award — $366,939 — was substantial, and that the compensatory award included a punitive element by allowing recovery for lost profits. (Petition, Apx. 32a-34a.)

Finally, the court relied on the fact that the maximum damages available for willful copyright infringement under the Copyright Act is $150,000, four times the maximum amount recoverable under the Act if the infringement is not willful. The court observed that Defendants' conduct, although willful, was not highly reprehensible and that, because the size of the allowable ratio fluctuates with the amount of the compensatory-damages award, a smaller ratio was appropriate here due to the large compensatory-damages award. (Petition, Apx. 34a-35a.)

The Sixth Circuit held that a ratio of 1:1 or 2:1 is all that due process can tolerate in this case and remanded to the District Court for remittitur of the punitive-damages verdict or a new trial on such damages. (Petition, Apx. 35a.)

On February 19, 2008, the Sixth Circuit denied Westbound's petition for rehearing *en banc*. 2008 U.S. App. LEXIS 3773 (6th Cir. Feb. 19, 2008).

REASONS FOR DENYING THE WRIT

I. Westbound's Proposed Bright-Line Test Fails to Consider Important Indicia of Constitutionality Established by This Court.

Westbound seeks this Court's review to resolve a split that Westbound alleges exists among appellate courts in applying the *Gore* guideposts: those courts that presume the validity of single-digit-ratio punitive-damages awards — a presumption Westbound urges the Court to adopt here —and those courts that review each award *de novo* even if it falls within the single-digit ratio.

Westbound has manufactured a court split. In each case cited by Westbound, regardless of whether the court has reversed the punitive-damages award or left it intact, the court has applied the three *Gore* guideposts in the context of the facts of each case. In cases where the level of reprehensibility is high, the courts typically affirm larger punitive-damages awards. In cases where the level of reprehensibility is low or compensatory damages are already substantial or include a punitive element, courts typically reverse or modify such awards. The trend of these cases comports with this Court's decisions in similar cases where the *Gore* guideposts do not strongly support a punitive-damages award.

Further, Westbound's proposed presumption to treat all single-digit-ratio punitive-damages awards the same ignores this Court's precedent, just reaffirmed in *Baker*, that awards in the low-single-digit range, specifically 1:1, are more appropriate punishment of conduct with a low level of reprehensibility.

Westbound's proposal ignores not only the level of reprehensibility but also a number of other important factors this Court has instructed courts to consider in determining whether such awards are unconstitutional, such as 1) whether the compensatory-damages award itself contains a punitive component; 2) whether the compensatory damages are substantial and 3) whether the harm inflicted was physical as opposed to economic.[6]

A. Westbound Has Manufactured an Appellate-Court Split That Does Not Exist.

Courts have not ignored the "gross excessiveness" standard in favor of "strict excessiveness," as Westbound alleges. Instead, courts, like the Sixth Circuit here, determine, by applying the *Gore* guideposts, whether a particular award is ***unconstitutional***. The appropriate measure of

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[6] Westbound further argues that the jury based its punitive-damages award on Defendants' disregard of Westbound's right to deny the use of the sample, but Westbound made no such argument in support of its punitive-damages request at trial and cites to nothing in the record to support the argument here.

constitutionality is determined in reference to the *Gore* guideposts.

Westbound argues there is a "split in circuits" in how courts have applied the *Gore* guideposts and that some courts, including the Sixth Circuit in this case, have become "bogged down in determining...whether a single-digit ratio of punitive to compensatory damages should be substituted for a marginally lower single-digit ratio." (Petition at 24.) Westbound suggests that two camps have developed: 1) those courts that "have aggressively reduced single-digit punitive award ratios to a marginally smaller single-digit ratio"; and 2) those courts that "have appeared to treat single-digit ratios as presumptively valid." (Petition at 22-23.)

Westbound recites merely the outcomes of each case and not the facts that militated the result. A review of each case shows that no circuit split exists.

In each case Westbound cites, as in this case, the court applied all three of the *Gore* guideposts to the particular facts of the case, determining whether the ratio of punitive to compensatory damages was too high only as part of the overall analysis. Not surprisingly, given that reprehensibility is the most important indicia of the three guideposts, *Gore*, 517 U.S. at 575, where courts affirmed a higher punitive-to-compensatory ratio, the courts found extreme misconduct or a strong showing of reprehensibility.[7]

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[7] *See, e.g., Zhang v. American Gen. Seafoods, Inc.*, 339 F.3d 1020, 1043-44 (9th Cir. 2003) (affirming award where the harm was

On the other hand, where reprehensibility was not strong and the other factors did not support the imposition of punitive damages, a higher ratio was reversed.[8]

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intentional race discrimination); *Planned Parenthood v. American Coalition of Life Activists*, 422 F.3d 949, 958, 963 (9th Cir. 2005) (affirming award where defendant's conduct was intended to intimidate by causing fear of murder or serious bodily injury and was thus "particularly reprehensible"); *Rhone-Poulenc Agro, S.A. v. DeKalb Genetics Corp.*, 345 F.3d 1366, 1372 (Fed. Cir. 2003) (award of just over 3 to 1 warranted given egregious nature of defendant's fraudulent conduct); *Trinity Evangelical Lutheran Church v. Tower Ins. Co.*, 661 N.W.2d 789, 801-02 (Wis. 2003) (affirming award where defendant's conduct was "grievous" and repeated against third parties); *Marie Deonier & Assoc. v. Paul Revere Life Ins. Co.*, 101 P.3d 742, 753 (Mont. 2004) (affirming award given "the heightened duty intrinsic and elemental to a fiduciary relationship" where insurance company was indifferent to a high probability of pecuniary loss to its agents); *Union Pacific Railroad Co. v. Barber*, 149 S.W.3d 325, 346-48 (Ark. 2004) (defendant intentionally put the traveling public in harm's way, causing death of one victim and severe injury to another); *Collins Entertainment Corp. v. Coats & Coats Rental Amusement*, 584 S.E.2d 120, 128 (S.C. Ct. App. 2003) ("degree of reprehensibility was...significant").

[8] *See, e.g., Clark v. Chrysler Corp.*, 436 F.3d 594, 605-06 (6th Cir. 2006) (reducing ratio where only one of five factors weighed in favor of reprehensibility); *Eden Electrical, Ltd. v. Amana Co.*, 370 F.3d 824, 829 (8th Cir. 2004) (affirming reduction of award where the case involved economic rather than physical harm and the fraud involved only a single incident and a single victim); *Conseco v. Finance Servicing Corp.*, 381 F.3d 811, 825 (8th Cir. 2004) (reducing punitive award where compensatory award was substantial); *Harris v. Archer*, 134 S.W.3d 411, 438-39 (Tex. Ct. App. 2004) (only one of five reprehensibility factors met;

The varying results of these cases were supported by an analysis of the unique facts of each case and do not create a split on the application of the law. Instead, the results of these cases comport with this Court's holdings in *Baker* and *Campbell* applying lower ratios to cases in which the blameworthiness is relatively low.

B. This Court Has Suggested That a 1:1 Ratio Is Appropriate in Cases, Like This Case, Where the Level of Reprehensibility Is Low and Compensatory Damages Are High.

Westbound urges the Court to establish a bright-line test that would impose a presumption of validity on each punitive-damages award within a single-digit-ratio unless the award was the result of passion or prejudice or no malice is found. Because the ratio here pushes the outer limits of single-digit ratios — 9.5:1 —Westbound urges a presumption of validity for all

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defendant's isolated incident causing only economic harm not "particularly egregious"); *Tony Gullo Motors I, L.P. v. Chapa*, 212 S.W.3d 299, 308-09 (Tex. 2006) (award reduced where damages for mental anguish of three times economic damages included a punitive element and only one of five reprehensibility factors met). In *Diesel Machinery, Inc. v. B.R. Lee Industries, Inc.*, 418 F.3d 820, 837-40 (8th Cir. 2005), which Westbound cites as an example of a court getting "bogged down" in the ratios, the court actually ***affirmed*** a remitted award where the conduct was intentional and repeated and comparable civil penalties were substantial. The plaintiff did not challenge the remittitur, so the Eighth Circuit did not address the district court's reduction of the award, much less "get bogged down" in the ratios in doing so.

single-digit-ratio awards. Westbound's basis for choosing the two exceptions it did and omitting other *Gore* guideposts is equally obvious because the Sixth Circuit found in favor of Westbound on these factors.

The Sixth Circuit concluded that other factors, such as the level of reprehensibility, the size of the compensatory-damages award and the fact that it includes a punitive element, and a comparison to Congress's statutory damages for copyright infringement, precluded affirmance of Westbound's award of punitive damages.

Such indicia of unconstitutionality cannot be ignored. Indeed, treating all single-digit-ratio awards the same fails to consider the important principle that "some wrongs are more blameworthy than others." *See Gore*, 517 U.S. at 576. Given the lack of guidance and the danger of vague jury instructions, the Court established the three *Gore* guideposts for courts to consider in reviewing punitive-damages awards. *Id.* at 575.

The Due Process Clause of the Fourteenth Amendment prohibits the imposition of grossly excessive or arbitrary punishments on a tortfeasor. *Campbell*, 538 U.S. at 416; *Gore*, 517 U.S. at 562. "This constitutional concern...arises out of the basic unfairness of depriving citizens of life, liberty, or property, through the application, not of law and legal processes, but of arbitrary coercion." *Gore*, 517 U.S. at 587 (Breyer, J., concurring). "The reason is that 'elementary notions of fairness enshrined in our constitutional jurisprudence dictate that a person receive fair notice not only of the conduct that will

subject him to punishment, but also of the severity of the penalty that a State may impose." *Campbell*, 538 U.S. at 416 (citing *Gore*, 517 U.S. at 574). Indeed, "[t]o the extent an award is grossly excessive, it furthers no legitimate purpose and constitutes an arbitrary deprivation of property." *Id.*

The Court has not gone so far as to impose strict numerical guidelines on courts reviewing punitive-damages awards. Until the *Baker* decision was entered on June 25, 2008, this Court has "consistently rejected the notion that the constitutional line is marked by a simple mathematical formula...."

> It is appropriate, therefore, to reiterate our rejection of a categorical approach. Once again, we return to what we said...in *Haslip*: "'We need not, and indeed we cannot, draw a mathematical bright line between the constitutionally acceptable and the constitutionally unacceptable that would fit every case. We can say, however, that [a] general concer[n] of reasonableness ...properly enter[s] into the constitutional calculus.'"

Id. at 582 (internal citations omitted).

To the extent a numerical benchmark is appropriate, this Court's recent decision in *Baker* and its previous decision in *Campbell* suggest that, in cases like this case, where the level of reprehensibility is low or the case for punitive damages is relatively weak, a ratio of no more than 1:1 is appropriate.

In *Baker*, a maritime case, the Court reversed a $2.5 billion punitive-damages award against Exxon Shipping Co. for its role in the catastrophic Alaskan oil spill of 1989. The Court held that a punitive-to-compensatory ratio of 1:1 is more appropriate given that Exxon's conduct has no earmarks of exceptional blameworthiness. 2008 U.S. LEXIS 5263, at **74-80. "Under the umbrellas of punishment and its aim of deterrence, degrees of relative blameworthiness are apparent." In addition, other factors, regardless of culpability, may warrant heavier or lighter punitive-damages awards. *Id.* at **39-42.

The median ratio of punitive to compensatory awards has remained less than 1:1 in the broad spectrum of cases. "The figures thus show an overall restraint and suggest that in many instances a high ratio of punitive to compensatory damages is substantially greater than necessary to punish or deter." *Id.* at **46-47. Noting, however, that the real problem is the stark unpredictability of punitive awards, *id.* at **50-51, the Court endorsed a quantified approach to reviewing such awards:

> There is better evidence of an accepted limit of reasonable civil penalty...in several studies mentioned before, showing the median ratio of punitive to compensatory verdicts, reflecting what juries and judges have considered reasonable across many hundreds of punitive awards....We think it is fair to assume that the greater share of the verdicts studied in these comprehensive collections reflect reasonable judgments about the economic penalties appropriate in their particular cases.

> These studies cover cases of the most as well as the least blameworthy conduct triggering punitive liability, from malice and avarice, down to recklessness, and even gross negligence in some jurisdictions. The data put the median ratio for the entire gamut of circumstances at less than 1:1,...meaning that the compensatory award exceeds the punitive award in most cases. In a well-functioning system, we would expect that awards at the median or lower would roughly express jurors' sense of reasonable penalties in cases with no earmarks of exceptional blameworthiness within the punishable spectrum...On these assumptions, a median ratio of punitive to compensatory damages of about 0.65:1 probably marks the line near which cases like this one largely should be grouped.

Id. at **74-80. The Court thus held that a 1:1 ratio was a fair upper limit in such maritime cases. *Id.* at *80.

The *Baker* decision was rendered not in the context of whether the punitive-damages award violated the Due Process Clause but, instead, under the Court's function in reviewing such awards under federal maritime common law. *Id.* at **33-34, 55. Nevertheless, the Court's decision to limit punitive damages to a 1:1 ratio because the level of reprehensibility was low and because the median punitive-damages awards in all cases, not only maritime cases, is less than a 1:1 ratio, is equally applicable here.

Baker is not the first decision in which the Court has indicated that a 1:1 ratio is appropriate in cases where the justification for punitive damages is not strong. The Court did so in *Campbell:*

> [B]ecause there are no rigid benchmarks that a punitive damages award may not surpass, ratios greater than those we have previously upheld may comport with due process where 'a particularly egregious act has resulted in only a small amount of economic damages.'...The converse is also true, however. ***When compensatory damages are substantial, then a lesser ratio, perhaps only equal to compensatory damages, can reach the outermost limit of the due process guarantee.*** The precise award in any case, of course, must be based upon the facts and circumstances of the defendant's conduct and the harm to the plaintiff.

538 U.S. at 426 (emphasis supplied).

Thus, Westbound's proposal to treat all single-digit-ratio awards the same is not supported by this Court's precedent. Indeed, treating all single-digit-ratio awards the same has never been suggested by this Court.

Westbound states that its proposed presumption was suggested by the plurality opinion in *TXO Production Corp. v. Alliance Resources Corp.*, 509 U.S. 443, 457 (1993), and by Justice Breyer's concurrence in *Gore*, 517 U.S. at 586-87. While those opinions endorsed establishing a presumption of validity of

punitive-damages awards in prescribed instances, they never discussed establishing a presumption for all awards within a single-digit ratio. *Gore*, 517 U.S. at 586 (Breyer, J., concurring) ("Members of this Court have generally thought...that if 'fair procedures were followed, a judgment that is a product of that process is entitled to a strong presumption of validity.") (quoting *TXO Production Corp.*, 509 U.S. at 457). Any question that all single-digit-ratio awards should not be treated alike should be put to rest by this Court's decisions in *Campbell* and now *Baker*.

Westbound's proposal fails to consider the location of misconduct on the spectrum of blameworthiness, as well as other factors that may indicate a violation of due process, and is thus fatally flawed.

C. Westbound's Proposal Ignores Important Indicia of Unconstitutionality.

Westbound's emphasis on guarding against "outliers" and punitive damages that have "run wild" is too simplistic. While the purpose for review of punitive-damages awards is to prevent "outlier" awards, the test is whether an award does not comport with due process. The *Gore* guideposts are designed to assist courts in determining whether due process has been violated. If it has, then such damages, as here, "run wild."

Westbound's proposed presumption addresses only two of the numerous indicia of unconstitutionality this Court has articulated: 1) that such an award may be the result of passion and prejudice; and 2) that such an award may be imposed in cases where there is no

malice. Westbound's proposal fails to consider other established indicators of gross excessiveness, such as the level of reprehensibility, the size of the compensatory-damages award, whether such award already contains a punitive component, comparable civil remedies, and whether the harm inflicted is the type of conduct warranting punitive damages.

The Court in *Gore* did not create the three guideposts in a vacuum. These factors have been applied in numerous cases assessing the constitutionality of damages and are rooted firmly in precedent:

The guidepost measuring reprehensibility of the offense is based on the fundamental principles that "some wrongs are more blameworthy than others" and that "the punishment should fit the crime." *Gore*, 517 U.S. at 575-76 & n.24 (and cases cited therein). "The principle that punishment should fit the crime 'is deeply rooted and frequently repeated in common-law jurisprudence.'" *Id.* at n.24 (quoting *Solem v. Helm*, 463 U.S. 277, 284 (1983)).

Likewise, the second guidepost, "[t]he principle that exemplary damages must bear a reasonable relationship to compensatory damages[,] has a long pedigree." *Gore*, 517 U.S. at 580 & n.32 (and cases cited therein).

Finally, as to the third guidepost, Justice O'Connor recognized before *Gore* that a reviewing court engaged in determining whether an award of punitive damages is excessive should "accord 'substantial deference' to legislative judgments concerning appropriate sanctions

for the conduct at issue.'" *Gore*, 517 U.S. at 583 (quoting *Browning-Ferris Industries of Vt., Inc. v. Kelco Disposal, Inc.*, 492 U.S. 257, 301 (1989) (O'Connor, J., concurring in part and dissenting in part)).

This Court in *Pacific Mutual Life Ins. Co. v. Haslip*, 499 U.S. 1 (1991), approved a state-court review procedure similar to the *Gore* test, which "ensures that punitive damages awards are not grossly out of proportion to the severity of the offense and have some understandable relationship to compensatory damages," suggesting, however, that state schemes that would only set aside or modify awards that were "manifestly and grossly excessive" or "evince[] passion, bias and prejudice on the part of the jury so as to shock the conscience," would not pass muster. *Id.* at 21-22.

Westbound advocates for precisely the extreme test rejected by this Court, stating:

> *De novo* review allows an appellate court to review a district court's determination anew, but it does not permit an appellate court to serve as a junior varsity jury — ***unless that jury's verdict is "run wild" and is so excessive as to strongly suggest bias, passion, or prejudice.***

(Petition at 34) (emphasis supplied). Like the rejected review procedures in *Haslip*, Westbound's proposal fails to consider other indicia of unconstitutional excess and thus should not be considered.

II. The Sixth Circuit Correctly Applied a *De Novo* Standard of Review.

Westbound argues that the Sixth Circuit erred by reviewing, *de novo*, whether the jury's findings supported the *Gore* guideposts, and, particularly, the reprehensibility factors. Westbound states that the Sixth Circuit should have reviewed such findings for clear error. Westbound then attempts to paint this issue as a broad concern afflicting appellate courts generally and warranting clarification by this Court, but Westbound cites no cases in support of this proposition.

As a threshold matter, the jury in the instant case did not make specific findings of the reprehensibility factors. The *Gore* guideposts were developed for purposes of application by ***courts*** in reviewing jury punitive-damages verdicts. *Gore*, 517 U.S. at 574-75; *Campbell*, 538 U.S. at 418. The jury made only one finding as to punitive damages: that punitive damages of $3.5 million should be awarded against Defendants.

The Sixth Circuit properly followed the holding of this Court in *Cooper Industries, Inc. v. Leatherman Tool Group*, 532 U.S. 424, 436 (2001), and applied a *de novo* standard of review to the question of whether punitive damages were unconstitutionally excessive. The Sixth Circuit analyzed each *Gore* guidepost assuming Westbound's — not Defendants' — version of the facts.

This Court in *Cooper Industries, Inc.* held that, "in passing on district courts' determinations of the constitutionality of punitive damages awards," the

reviewing court must apply a *de novo* standard of review. *Id.* at 436. The reason, the Court explained, is that punitive damages are not, like compensatory damages, intended to address the concrete loss the plaintiff has suffered by reason of the defendant's wrongful conduct, but, instead, operate as private fines intended to punish the defendant and to deter future wrongdoing. *Id.* at 432. Thus, "[a] jury's assessment of the extent of a plaintiff's injury is essentially a factual determination, whereas its imposition of punitive damages is an expression of its moral condemnation." *Id.*

Further, the precise meaning of such concepts as gross excessiveness cannot be articulated with precision and are "'fluid concepts that take their substantive content from the particular contexts in which the standards are being assessed.'" *Id.* (quoting *Ornelas v. United States*, 517 U.S. 690, 697 (1996)). In addition, the general criteria set forth in *Gore* will acquire more meaningful content through case-by-case application at the appellate level. *Id.* "[*D*]*e novo* review tends to 'unify precedent' and 'stabilize the law.'" *Id.* (quoting *Ornelas*, 517 U.S. at 697-98):

> Requiring the application of law, rather than a decisionmaker's caprice, does more than simply provide citizens notice of what actions may subject them to punishment; it also helps to assure the uniform treatment of similarly situated persons that is the essence of law itself.

Ornelas, 517 U.S. at 587.

Only the factual findings made in conducting the excessiveness inquiry must be accepted unless clearly erroneous. *Cooper Industries, Inc.*, 532 U.S. at 435. "Unlike the measure of actual damages suffered, which presents a question of historical or predicative fact, the level of punitive damages is not really a 'fact' 'tried' by the jury." *Id.* at 437 (citations omitted). Thus, the reviewing court's consideration of each of the *Gore* guideposts must be made on a *de novo* basis.[9] *Id.* at 440.

The Sixth Circuit considered whether Defendants acted with intentional malice or deceit based on Westbound's view of the facts: that Defendants ignored pre-litigation letters and re-released the album knowing it contained an unauthorized sample. The Sixth Circuit, assuming this evidence to be accurate, determined that such conduct was "somewhat reprehensible." Likewise, the Sixth Circuit did not "second guess" the jury on the issues of financial vulnerability and repeated conduct, as Westbound contends, but instead considered Westbound's arguments in the context of Westbound's version of the

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[9] The Court noted that differences in the institutional competence of trial judges and appellate judges are consistent with its conclusion, as, only with respect to the first *Gore* guidepost, reprehensibility, do district courts have a "somewhat superior vantage" over appellate courts, "and even then the advantage exists primarily with respect to issues turning on witness credibility and demeanor." The Court added that trial and appellate courts seem equally capable of analyzing the second factor — the ratio — and that appellate courts seem more suited to the third guidepost — comparable civil penalties — which calls for a broad legal comparison. *Id.*

facts, finding Westbound's evidence insufficient to make its case.

III. This Case Is Not the Appropriate Vehicle to Change Settled Law.

This case is not the appropriate vehicle for this Court to revisit appellate review of punitive-damages awards. Here, the punitive-damages award was grossly excessive under the circumstances, and the Sixth Circuit's determination that a 2:1 or 1:1 ratio is more appropriate comports with this Court's decisions in *Gore*, *Campbell* and *Baker*.

Applying the appropriate standard of review, the Sixth Circuit correctly applied the *Gore* factors.

A. Reprehensibility.

This Court set forth the standard for reprehensibility in *Campbell*:

> Reprehensibility is determined based on consideration of whether the harm caused was physical as opposed to economic; the tortious conduct evinced an indifference to or a reckless disregard of the health or safety of others; the target of the conduct had financial vulnerability; the conduct involved repeated actions or was an isolated incident; and the harm was the result of intentional malice, trickery, or deceit, or mere accident.

538 U.S. at 419. "The weighing of only one of these factors in favor of plaintiff may not be sufficient, and

the absence of any factor weighing in favor of plaintiff 'renders any award suspect.'" *Id.*

The Sixth Circuit found present only one of the four reprehensibility factors — that the harm was the result of intentional malice or deceit — and the court determined that even the showing of that factor was not strong. The court did not make new findings of fact, as Westbound alleges, but instead assumed the jury believed Westbound's version of the facts. The court concluded that, based on this evidence, Defendants' conduct was "somewhat reprehensible." (Petition, Apx. 26a-27a.)

The Sixth Circuit also correctly found that the other reprehensibility factors were not present. Westbound does not contest that the harm in this case was purely economic and did not threaten the health or safety of others. (Petition, Apx. 28a.)

The court determined that Westbound is not a financially vulnerable victim but rather a company "that has proven its ability to protect its rights." Again, the court considered Westbound's asserted factual evidence: 1) that it is a small company that depends almost entirely on income from sampling, 2) that Defendants used Westbound's sample instead of a sample of Jimi Hendrix's "Power of Love," for which Defendants could not get clearance, and 3) that Defendants have "financial clout" and "strength in the music industry worldwide." The court rejected not the facts themselves but Westbound's argument that they support a finding that Westbound is a financially vulnerable victim. (Petition, Apx. 28a) (citing *Clark v. Chrysler Corp.*, 436 F.3d 594, 604 (6th Cir. 2006)).

As to the fourth reprehensibility factor, the Sixth Circuit found no evidence that Defendants' infringement was one of a repeated number of actions. Again, the Sixth Circuit did not disregard any factual findings of the jury in reaching this conclusion; instead, the court found a ***lack*** of evidence supporting Westbound's argument that Defendants' conduct was repeated.

The court assumed Westbound's factual evidence to be true but determined it was not sufficient to establish infringements by Defendants against various different parties rather than within the single transaction with Westbound.

Westbound never alleged more than one act of infringement. Indeed, its sister company, Bridgeport, on the same set of facts, sought and recovered $150,000, the maximum amount of statutory damages for a single act of infringement: the taking of the sample without a license.

Punitive damages are designed to punish actionable conduct. If Westbound believed Defendants' conduct during the litigation was actionable, Westbound had a separate vehicle to pursue such remedies.[10] (Petition, Apx. 29a.)

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[10] Westbound further argues that a split among the appellate courts exists in applying the "repeated conduct" prong of the reprehensibility guidepost. This Court, however, made clear in *Williams*, 549 U.S. 346; 127 S. Ct. at 1065, that harm to others is the appropriate test: "Evidence of actual harm to nonparties can help to show that the conduct that harmed the plaintiff also posed a substantial risk of harm to the general public, and so was

B. Disparity between Compensatory and Punitive Damages.

The Sixth Circuit followed this Court's precedent in considering the punitive-to-compensatory ratio here.

The Sixth Circuit determined that the compensatory-damages award — $366,939 — is large and supports a ratio of only 1:1 or 2:1.[11] The Sixth Circuit also emphasized that the compensatory-damages award included a punitive element, as Westbound was awarded both actual damages and Defendants' profits.[12] (Petition, Apx. 32a-34a.)

The Sixth Circuit's decision, again, comports with this Court's decision in *Campbell*, where the Court observed that a 1:1 ratio is appropriate when compensatory damages are high and reversed a punitive-damages award where the compensatory

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particularly reprehensible...." Westbound failed to provide evidence that Defendants repeated the actionable conduct here: copyright infringement.

[11] The Sixth Circuit appropriately compared this case to other cases in which the harm was more egregious but the ratio was smaller. (*See* Petition, Apx. 32a-33a.)

[12] The purpose of allowing copyright plaintiffs to recover the defendants' profits is to prevent the infringer from unfairly benefitting from a wrongful act. (Petition, Apx. 33a) (citing *Hamil Am., Inc. v. GFI*, 193 F.3d 92, 103 (2d Cir. 1999) (quoting H.R. Rep. No. 94-1476, at 161 (1976), *reprinted in* 17 U.S.C.A. 504 at 146 (West 1996)).

damages were not only high but included a punitive component. 538 U.S. at 426.[13]

Moreover, as the Sixth Circuit observed, when Westbound's ***actual*** damages, which do not include its lost profits, are compared to punitive damages, "the ratio of the punitive damages award and the non-punitive element of the compensatory damages award is very high."[14]

C. Comparable Civil Penalties.

Westbound does not address the third guidepost: comparable civil remedies for the tortious conduct at issue. This Court has observed that "a reviewing court engaged in determining whether an award of punitive damages is excessive should 'accord substantial deference to legislative judgments concerning appropriate sanctions for the conduct at issue.'" *Gore*, 517 U.S. at 583 (quoting *Browning-Ferris Industries of Vt., Inc.*, 492 U.S. at 301 (O'Connor, J., concurring in part and dissenting in part)).

Indeed, the third guidepost is particularly significant here, as the Sixth Circuit recognized, because Congress has set the maximum amount of statutory damages allowable for willful copyright

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[13] The Sixth Circuit rejected Westbound's argument that the ratio should be measured based on the entire amount of compensatory damages awarded to both Plaintiffs — $366,939 x 2, plus interest of $276,763.93. (Petition, Apx. 33a-34a.)

[14] Westbound's lost licensing fees were $43,478 without interest and $51,946 with interest, equaling a ratio of just over 100:1.

infringement at $150,000. 17 U.S.C. § 504(c)(2). Given Defendants' conduct was not highly reprehensible in this case and compensatory damages are substantial, the Sixth Circuit's maximum ratio of 2:1 or 1:1 here is appropriate.

CONCLUSION

This case presents nothing more than a garden-variety claim of willful copyright infringement, entitling Westbound to seek punitive damages only because of a statutory exception for pre-1972 sound recordings.[15] The Sixth Circuit has not outright rejected punitive damages here but has limited the award to a ratio of 1:1 or 2:1. The range of punitive damages allowed by the Sixth Circuit in this case far exceeds the Congressional limits for the punishment of infringing conduct and comports with the precedent of this Court.

For the foregoing reasons, the Petition for Writ of Certiorari should be denied.

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[15] *See* 17 U.S.C. § 301(c). This exception will be eliminated on February 15, 2067, when the preemptive provisions of the Copyright Act shall apply. *Id.*

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IN THE
Supreme Court of the United States

WESTBOUND RECORDS, INC.,

Petitioner,

v.

JUSTIN COMBS PUBLISHING and BAD BOY ENTERTAINMENT, individually and doing business as Bad Boy Records; UNIVERSAL RECORDS, a division of UMG Recordings, Inc.; UMG RECORDINGS, INC.; BAD BOY LLC,

Respondents.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

REPLY BRIEF OF PETITIONER

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REPLY BRIEF OF PETITIONER

This case highlights the need for additional guidance for lower courts in overseeing punitive damages awards under substantive due process.

Petitioner/Westbound holds a copyright in the sound recording "Singing in the Morning." That copyright, which is protected under New York law, allows Westbound to authorize or not authorize the use of the protected sound recording in a musical composition. *Bridgeport Music, Inc. v. Dimension Films*, 410 F.3d 792 (6th Cir. 2005).

Respondents/Defendants used Petitioner's sound recording in their own musical composition and sound recording, "Ready to Die" through a process of digital copying ("sampling"). Respondents were well aware of their legal obligation to secure "clearance" under such circumstances. J.A. 4346-4348.[1] Prior to their use of Petitioner's protected work, Respondents had unsuccessfully sought approval for use of a work owned by Jimi Hendrix. Respondents accepted that rejection, knowing their legal obligations.

Under self-perceived time pressure to conclude work on "Ready to Die," to be released on

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[1] J.A. refers to the Joint Appendix in the Court of Appeals; Pet. App. refers to the Appendix to the Petition for Writ of Certiorari; BIO refers to Respondents' Brief in Opposition.

an album also called "Ready to Die," Respondents used Petitioner's work instead. The same sample from Petitioner's sound recording was also copied in another song on the same "Ready to Die" album. J.A. 4354-57. But Respondents did not notify Petitioner or seek its approval ("clearance"). They just blew off -- knowingly, willfully, and maliciously – the legal right of Petitioner to authorize or not authorize use of its protected work and to receive royalties on terms negotiated by the parties. Under the circumstances, Respondents self-evidently did not acknowledge their use of Petitioner's work and provided no label credit, which Petitioner routinely required whenever one of its works was used. Label credit makes the public aware that Petitioner's music is being used in a song or on an album.

Petitioner is a small company with one employee, who is shared with Petitioner's sister company Bridgeport Music. Petitioner suspected this piracy and invested resources to establish its existence. When Petitioner sought to contact Respondents about their unauthorized use of Petitioner's protected intellectual property, Respondents stonewalled. They did not respond to correspondence from Petitioner that presented evidence of the unauthorized use. J.A, 265, 267, 273, 275, 2987-88. Petitioner was forced to sue, losing some claims because of statute of limitations constraints.

In the context of litigation, Respondents brazenly sought to cover up their piracy, denying its very existence in repeated discovery responses. J.A. 537, 546-47, 562-64, 572, 605, 619-20, 648. Yet, in

the opening statement at trial, Respondents changed their position 180° -- admitting that they knew all along that Petitioner's work had been sampled and without the required authorization; the issue at trial was just a matter of "how much" the damages would be. Prior to that opening statement at trial, Respondents had never admitted that "Ready to Die" included a sample from "Singing in the Morning." J.A. 2231-32, 2369-70.

The album "Ready to Die" was a huge success, with 3,271,846 copies sold as of February 2006. J.A. 509. During the pendency of the litigation, Respondents released the pirated work **again** – over the course of two years and in at least three album versions. J.A. 475, 689, 1368-76, 4090-4108. Yet again, no identification of or acknowledged credit for use of Petitioner's work was included in the re-releases – and no royalties were paid. J.A. 1354-76, 2389-90.

The jury awarded compensatory damages of $733,878, which the district court reduced by 50% (to $366,939) because Petitioner shared the damages with its sister company Bridgeport Music. Pet. App. 50-51a. The jury also awarded $3.5 million in punitive damages against the three Respondents. *Id.* at 58a.

The Court of Appeals rejected Respondents' claim that the jury verdict reflected passion and prejudice. *Id.* at 8-12a. The Court of Appeals upheld the jury verdict that Respondents' violation of

Petitioner's intellectual property was willful and that "the harm [to Petitioner] was the result of intentional malice or deceit." *Id.* at 27a. The jury spoke to voice appropriate moral outrage at Respondents' intentional, malicious, and duplicitous business practices. However, the Court of Appeals held that the jury award of a total of $3.5 million was "unconstitutionally excessive and violates due process." *Id.* at 26a. Punitive damages were capped in the range of 1:1 to 2:1 of compensatory damages.

In its details, this case is not unlike – and indeed is easier than – *TXO Production Corp. v. Alliance Resources Corp.*, 509 U.S. 443, 446 (1993), in which this Court upheld a punitive damages award of $10 million and an "actual damages" award of $19,000. The context there was purely economic -- an attempt to cloud title by frivolous lawsuits – and involved royalty income (oil and gas, not intellectual property). What was critical in *TXO* was that the behavior was "malicious and fraudulent," *id.* at 462 (plurality), "deliberate, wrongful conduct." *Id.* at 469 (Kennedy, J., concurring in part and concurring in the judgment).

In overturning the jury's verdict, as affirmed by the district court, the Court of Appeals placed a spin on the evidence that arose from its own factfinding. For example, the Court of Appeals concluded that the Petitioner "is not a financially vulnerable victim," *id.* at 28a, even though it had only one employee and was perceived *ex ante* by Respondents as a force not on a par with Jimi

Hendrix, from whom Respondents sought but were denied clearance for sampling of another song. The Court of Appeals stated that the Respondents' "refusal to use the Jimi Hendrix sample cuts both ways – it could mean that defendants actually tried to avoid copyright infringement, or it could mean, as Westbound argues, that defendants only avoided infringing copyrights owned by the powerful." *Id.* But such weighing of facts on appeal is inconsistent with this Court's admonition that jury findings of fact are owed deference under a clear error standard. *Cooper Industries, Inc. v. Leatherman Tool Group, Inc.*, 532 U.S. 424, 440 n.14 (2001). While the jury rendered a general verdict, consistency with *Cooper Industries* should require that reasonable inferences of fact be judged most favorably to the party receiving the jury verdict – absent clear error.

Similarly, the Court of Appeals ruled as a matter of law that repeated conduct only occurs when reprehensible conduct is directed at various different parties. Pet. App. 29a. It is one thing for an appellate court, exercising *de novo* review, to determine whether repeated conduct over the course of a dozen years warrants a particular award; it is quite another for an appellate court categorically to disparage a jury's verdict by concluding that what was obviously repeated conduct in the context of this set of transactions was not to be considered at all in the process of weighing overall reprehensibility.

To state these facts and the Court of Appeals' conclusions is to demonstrate that this Court needs

to set some additional parameters to better filter these punitive damages cases under substantive due process.

This case has nothing in common with cases such as *BMW v. Gore*, 517 U.S. 559 (1995). *BMW* made clear that substantive due process review is targeted only at punitive awards that are "grossly excessive" in relation to the state's "legitimate interests in punishing unlawful conduct and deterring its repetition." *Id.* at 562, 568. The non-disclosure of the pre-delivery damage in *BMW* amounted to less than 3% of the car's suggested retail price – about $4,000 in actual damages. There was no evidence of bad faith, and no evidence of "deliberate false statements, acts of affirmative misconduct, or concealment of evidence of improper motive." *Id.* at 579. While the Court accepted the jury finding that defendant had a duty to disclose the pre-delivery damage as a "material" fact, *id.* at 579-80, the Court emphasized the difference between "omission of a material fact" and a "deliberate false statement," *id.* at 580, concluding that there was insufficient "egregiously improper conduct ... to warrant imposition of a $2 million exemplary damages award." *Id.* The ratio of punitive to compensatory damages was 500:1, which the Court characterized as "breathtaking." *Id.* at 583.

Nothing like a 500:1 ratio (*BMW*) or a 145:1 ratio (*State Farm Mutual Automobile Ins. Co. v. Campbell*, 538 U.S. 408, 425 (2003)) is involved in this case. At most, the ratio in the jury verdict is

9.5:1 and possibly as low as 3.5:1 – all in single digits. This case involves intentional and malicious conduct by Respondents that was "hard to detect," *BMW*, 517 U.S. at 582, directly related to Petitioner's injury (and, therefore, unlike the conduct in *State Farm*, 538 U.S. at 422).

The Court of Appeals in this case[2] reduced a single-digit ratio to a lower single-digit ratio in the face of intentionally malicious conduct and in the absence of any finding of passion or prejudice. Such micromanagement demonstrates the need for additional filters in the Court's punitive damages jurisprudence. This is well reflected by the Court of Appeals' continual reference in this case to "excessive" punitive damages – but never referring to "grossly excessive" or some similar terminology.

In *Exxon Shipping Co. v. Baker*, 2008 U.S. LEXIS 5263, in a thoughtful and comprehensive consideration of punitive damages in the context of the federal maritime common law, this Court surveyed the area in detail; a similar analysis is warranted in the more restrained constitutional context, where considerations of judicial oversight differ considerably from the common law context. This case provides an excellent vehicle for this needed additional clarification.

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[2] Other appellate courts have also reduced single-digit ratios to lower single-digit ratios. Some appellate courts have declined to do so. See Petition for Writ of Certiorari at 21-24.

In *Exxon Shipping*, the Court acknowledged that "the most recent studies tend to undercut much of" the early criticism of punitive damages, with a "survey of the literature reveal[ing] that discretion to award punitive damages has not mass-produced runaway awards." Slip. Op. at 24. As in the case of non-pecuniary loss (pain and suffering), where unexplained variation in awards is substantial, see Bovbjerg, Sloan, & Blumstein, *Valuing Life and Limb in Tort: Scheduling "Pain and Suffering,"* 83 NW. U. L. REV. 908, 923 (1989), the "real problem" in the area of punitive damage awards is the "stark unpredictability" of the "outlier cases." *Exxon Shipping*, Slip. Op. at 26. This conclusion reaffirms this Court's initial concern – the one that led it into developing its substantive due process jurisprudence of punitive damages – that judicial intervention is needed to deal with "punitive damages that 'run wild.'" *Pacific Mutual Life Ins. Co. v. Haslip*, 499 U.S. 1, 17 (1991).

This Court's substantive due process jurisprudence of punitive damages has attempted to facilitate "progress from fiat to rationality," assuring that "[e]lements of whim and caprice do not predominate" in jury decisionmaking regarding punitive damages. *Id* at 40 (Kennedy, J., concurring). The now-familiar guideposts embraced in *BMW* and amplified in *State Farm* were designed to impose "meaningful, law-like restraints on jury excess," forestalling "bias, passion, or prejudice on the part of the jury" in favor of an examination of "a rational concern for deterrence and retribution."

TXO Production Corp. v. Alliance Resources Corp., 509 U.S. 443, 467 (1993)(Kennedy, J., concurring in part and concurring in the judgment). That is, the Court must focus, to some extent, on the size of the award – as evidence of bias, passion, or prejudice and to "ensure that the measure of punishment is both reasonable and proportionate to the amount of the harm to the plaintiff and to the general damages recovered." *State Farm*, 538 U.S. at 426. But the most critical focus is on the "reasons" the jury embraces for imposing a punitive damages award. *TXO*, 509 U.S. at 467 (Kennedy, J., concurring in part and concurring in the judgment).

In this regard, this Court has stated that the reprehensibility of a defendant's conduct is "the most important indicium of the reasonableness of a punitive damages award." *BMW*, 517 U.S. at 575. But factors such as reprehensibility are conventionally determined by factfinders in a common-law process, and the Court has rejected a challenge to the "common-law method for assessing punitive damages." *Haslip*, 499 U.S. at 17. In a common-law process, some variation in jury awards is inevitable, but such "nonuniformity cannot be equated with constitutional infirmity." *Id.* at 41 (Kennedy, J., concurring in the judgment). Therefore, jury judgments regarding reprehensibility may routinely show variability in awards – *i.e.*, within single-digit ratios for punitive to compensatory damages. It is only the relatively few outlier cases whose lack of consistency in

punitive damages awards led this Court to constitutionalize the law of punitive damages.

In the common-law context of *Exxon Shipping*, the concern with outliers led the Court to embrace quantified guidelines as an antidote to case-by-case arbitrariness. Slip Op. at 32. This case provides a vehicle for the Court to provide a comparable filter in the substantive due process context – one that structures decision-making so as to remain faithful to the original ideal, namely the concern with outlier cases in which punitive damages awards are "grossly excessive" or in which the legitimacy of the process of decision-making is called into question (*e.g.*, when passion or prejudice is present).

In determining the contours of the guidelines to adopt in a common-law context, this Court has placed great emphasis on the significance of intentional or malicious conduct, distinguishing it from reckless conduct in terms of reprehensibility. *Id.* at 40. And, within the world of intentional or malicious conduct, the Court in *Exxon Shipping* considered as the "most egregious conduct" that which included "malicious behavior ... carried on for the purpose of increasing a tortfeasor's financial gain." *Id.* at 37. This reconfirms the primacy of intentional and malicious conduct – especially such conduct that is not "profitless to the tortfeasor," *id.* at 38, but is aimed (as herein) at capturing a "lucrative stream of royalties," *TXO*, 509 U.S. at 462.

To remain faithful to the very rationale for constitutionalizing under substantive due process the law of punitive damages, courts should not routinely step into the punitive damages arena wearing their constitutional hat in the absence of a finding that a case is an "outlier"– that the punitive damages award is "grossly excessive." To achieve that objective, the Certiorari Petition suggested embracing as binding doctrine the framework of the plurality in *TXO*, 509 U.S. at 457, that a punitive damages judgment based on fair procedures "is entitled to a strong presumption of validity." This "presumption of validity" was also embraced by Justice Breyer in his concurrence in *BMW*. 517 U.S. at 586-87. That concurrence was joined by Justices O'Connor and Souter and referred to an analogous position advocated in a concurring opinion by Justice Kennedy. *Haslip*, 499 U.S. at 40-42.

This is how the proposed presumption would work. A rebuttable presumption would attach to a punitive damages award that bore a ratio of less than 10:1 to the compensatory award, provided (i) that there is no reason to question the process through which a punitive award is reached (*e.g.*, no passion or prejudice is present) and (ii) that the conduct subject to punitive damages was intentionally malicious (not just negligent or even reckless). This structure would reinforce that only "grossly excessive" outlier punitive awards run afoul of substantive due process, and it would avoid the spectacle of appellate courts micromanaging punitive

damage awards in the absence of some strong reason for doing so.

The presumption accords with the rationale for the Court's entry into the field.

The passion or prejudice filter addresses the procedural dimension of the Court's punitive damages jurisprudence. Where evidence of passion or prejudice exists, no presumption of validity is warranted. Similarly, where intentionally malicious conduct is absent or where, if present, it involves unrelated or extraterritorial conduct, then no presumption of validity exists. Such cases warrant the full-blown appellate analysis under the *BMW* guideposts as refined in *State Farm*. The Court has acknowledged that reprehensibility is the most critical indicator of an appropriate punitive damages award, and the Court has drawn a distinction between intentionally malicious and other (such as reckless) conduct in overturning large punitive awards.

The less-than-10:1 ratio of punitive to compensatory damages filter is designed to provide a rebuttable presumption that a punitive award is not so excessive as to violate constitutional due process standards, absent special circumstances. The Court signaled in *State Farm* that a punitive-to-compensatory ratio beyond single digits is presumptively suspicious; this proposed approach provides symmetry. When the punitive-to-compensatory damage ratio is in single digits, it is

highly likely that "the measure of punishment is both reasonable and proportionate to the amount of the harm to the plaintiff and to the general damages recovered." *State Farm*, 538 U.S. at 426.

Respondents mistakenly assert that this proposed approach ignores the other reprehensibility factors described in *State Farm*. BIO at 15, 19. Respondents also mistakenly assert that the proposal is "fatally flawed" because it does not "consider the location of misconduct on the spectrum of blameworthiness." *Id.* at 24.

To the contrary, the proposal gives firm endorsement to the primacy of intentional reprehensible conduct in the evaluation of punitive awards. This accords with the notion of punishment. It also gives effect to the concern about fair procedures, which also characterize traditional concerns regarding punishment. And, far from ignoring the other reprehensibility factors or the comparable punishment guidepost, the proposed approach allows for their consideration but only when defendants can demonstrate that something about those other characteristics of a punitive award can result in a fair characterization of an award as "grossly excessive," not just "excessive." And, such a channeled analytical structure would reduce the likelihood that courts remain bogged down in micromanaging jury awards and reserve judicial intervention to address the "real problem" of punitive awards – coping with the "stark unpredictability" of the "outlier cases [that] subject

defendants to punitive damages that dwarf corresponding compensatories." *Exxon Shipping*, Slip Op. at 26.

CONCLUSION

The Petition for Writ of Certiorari should be granted.

Respectfully submitted,

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